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CONFERENCE OF BRITISH COMMONWEALTH STATISTICIANS  
SEPTEMBER, 1935.

AGENDA:

THE BALANCE OF INTERNATIONAL PAYMENTS  
AND CAPITAL MOVEMENTS

Prepared under the Direction of the  
Dominion Statistician  
Dominion Bureau of Statistics  
Ottawa







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AGENDA:

CONFERENCE OF BRITISH COMMONWEALTH STATISTICIANS

THE BALANCE OF INTERNATIONAL PAYMENTS  
AND CAPITAL MOVEMENTS







OUTSIDE CAPITAL INVESTED IN CANADA AND  
CANADIAN CAPITAL INVESTED ABROAD

Those whose task it is to estimate capital investment figures for a nation are faced with formidable difficulties not only in the actual collection of data but in an earlier stage of the project, viz., the matter of definition. A choice has to be made between such alternatives as capitalization and capital employed, nominal value, book value, market value, though frequently lack of information limits the choice to fewer alternatives.

Market value of securities as a criterion of the foreign capital invested in a country is the most unsatisfactory method to adopt as is obvious when large cyclical fluctuations are considered. One has only to examine the oscillations of a curve based on the index number of security prices to see how erratic an indicator of capital investment market values would be. An important determinant of common stock prices, for example, is their dividend earning possibilities. The price of a stock which has ceased to pay dividends for the time being will drop to a fraction of its former level but the capital invested may still be intact and it may eventually prove as remunerative as before. To measure capital investment by the market value of the security, therefore, would be very misleading.

Par value as a criterion for the measurement of capital investment has also its limitations. In the first place, many securities are "no par" stocks and some other criterion of investment value has to be adopted. Where par value exists it may be a satisfactory criterion at the time of the original investment but after profits are ploughed back into the business for a number of years the original par share may be worth double or treble its original value in actual realizable net assets. On the other hand, if adversity strikes the firm, the original capital may be lost in whole or in part and original par value is no longer a true criterion of value. Even original par value may be merely nominal and not represent the actual money per share put into the business. In the mining field much of the capitalization is only nominal and does not represent money paid into the enterprise. Frequently large blocks are given to the discoverers of the property.







Book value, where the meaning is the real equity of shareholders in the business and not some fictitious figure set down as the value of the security capital, would be a satisfactory basis if it could be procured. Unfortunately, balance sheets are not available for all firms and in innumerable cases where they are they lack the completeness, clarity and accuracy necessary to yield the requisite data. Moreover, the real equity value (book value in the above sense) is extremely difficult to ascertain no matter how much those who draw up balance sheets may desire to show it.

Another limitation on the "book value" method is that it does not apply in the case of most bonds. The worth of government bonds can scarcely be decided by a book valuation in the sense adopted above. If interest is being paid, par value will be a fair criterion because, even if current interest rates set the market price at a discount or a premium, the government is obligated to pay only the face value at maturity. The same holds true of corporations where interest is paid. In governments or corporations where part of the capital value is lost and where the owner of the bond cannot hope to realize its face value at maturity, the par value will have to be written down.

There remain the alternatives, "capitalization" and "capital employed." Capitalization consists of the bonds and stocks which have already been discussed under the heads, market, par, nominal and book value. By capital employed is meant the actual capital which is in use in the business. This concept is confined to business firms and corporations and not to governments. The Dominion Bureau of Statistics gathers every year in its Industrial Census, facts regarding the capital actually employed by the firm. Similar information was secured in the Census of Merchandising and Service Establishments for retail and wholesale trade. The results, though not entirely satisfactory, furnish valuable information. One drawback is the great difficulty of securing uniformity of interpretation among all firms of the meaning of "capital."

It is probable, however, that the figures reported approximate fairly closely to a true "book value" in the sense of equity value, including the capital value of bonds and preferred stock. This value would, therefore, be composed of the value of bonds plus the equity of







preferred and common stock holders.

One defect of this data from the point of view of the balance of payments is that the totals exclude all plants which are not operating in any year. If the capital in these is intact and they will resume operations subsequently, they should be included and an addition has to be made for them.

Census of Industry figures are subject to the writing-down of assets which take place in a period of depression. Consequently, there will appear to be a considerable drop in the capital invested which cannot be attributed to the withdrawal of capital. This is as it should be, however, for the shareholder's equity must diminish with the deflation of assets.

It is obvious that such figures could not be used as the basis for ascertaining the inflow and outflow each year of investment by outsiders in Canada. The question of capital inflow and outflow constitutes an entirely separate inquiry and quite different methods are used in solving it. The estimate of investment now under discussion is for the purpose of showing the amount of the capital indebtedness of governments and corporations on the best basis of present worth attainable. In particular, this estimate has to do with the capital indebtedness due to people outside Canada. The figures attempt to show the amount which would be paid to outsiders if all government bonds were paid off at par and if corporations could all be liquidated at the present worth as shown by the Census of Industry's capital employed figures.

In order to divide capital investments in Canada by outside nations into geographical categories, it is necessary to compile the information according to capitalization. The Bureau of Statistics has ascertained by a census of capitalization those firms in Canada in which there is some British or foreign interest. The geographical distribution of ownership of such firms is periodically checked and entered in the corporation records files in which a separate card is placed for each firm. These cards are classified into two categories, viz., direct investments and portfolio investments. Direct investments include all firms which are branch, subsidiary, affiliated or controlled in relation to another country. This group includes all firms in which the ownership of the







capital stock is over fifty per cent in another country even if no definite parentage or source of control abroad can be ascertained. It includes also certain firms in which less than fifty per cent ownership is in other countries but where definite parentage, control or close affiliation is known to exist. The second category, portfolio investments, includes the minority interest of outsiders (both private individuals and corporations) in Canadian corporations. As, for example, the British and United States holdings of Steel Company of Canada, Consolidated Mining and Smelting Company, Dominion Textile, and so on.

While it is possible to secure the geographical distribution of the ownership of its stocks from the firms concerned, it is usually impossible to secure the same information for bonds most of which are of the bearer coupon variety. Fortunately, a certain amount of information is available from other sources. When bonds are first issued their geographical distribution is made known in lists published by various investment dealers and also in certain financial papers. For the period 1914 to date the taking of public issues of other countries in the United States have been listed by the Department of Commerce. A record of outstanding Canadian securities originally floated in whole or in part in the British market is found in the Stock Exchange Official Year Book<sup>x</sup>. From these and other supplementary sources a record of the original geographical distribution of ownership of the bonds of Canadian governments and corporations has been compiled. Such a compilation has certain limitations. In the first place, all sources do not agree as to the geographical distribution of a particular bond and it is necessary to make a more or less arbitrary decision as to the amount which shall be taken. A second and much more serious limitation is that the distribution about which information is available is the original distribution. In view of the fact that a great many Canadian bonds enter into international trade, the original distribution would be subject to correction from the very day the bonds were originally marketed. No data are available at present for such corrections though possible sources for such information exist. These will be discussed later.

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<sup>x</sup> Formerly two publications, The Stock Exchange Year Book and The Stock Exchange Official Intelligence.







The capitalization figures, therefore, consist of bonds at par value geographically distributed on the basis of the original distribution and common and preference stocks at par or book value. Where financial statements were available, surplus or deficits were considered in making total figures. This information is the basis for dividing capital employed figures into geographical categories. The method is to take the capital employed as reported to the industrial census by each firm and divide it according to the geographical classifications of ownership as ascertained by the records on capitalization and worked out to a percentage basis. The par value of bonds and preferred stock is first deducted and the remainder divided according to the ownership of common stocks as representing the equity of the common stock holders. To ascertain the total interest according to geographical classifications, the bonds and preferred stocks owned in these classifications are then added.

Of course the actual computation of these totals is a more complex task than the above description implies. Holding companies, for example, require special treatment. If a subsidiary of a holding company is wholly owned, there is no difficulty since the distribution of ownership of the capitalization of the holding company applies to the subsidiary. But where it is only partially owned, the equity of those other than the holding company who own shares must be ascertained. In those instances where a Canadian corporation has branches abroad, allowance may have to be made for such in estimating total Canadian capitalization. Such investment abroad will appear in the general table of Canadian investments in other countries.

A comparison of the results of these two methods of estimating British and foreign investment in Canada may now be made. Table I shows the investment according to capitalization figures; Table II on the basis of capital employed.

It will be noticed that capitalization figures run well below those for capital employed. In the grand totals the former average from 75 per cent to 80 per cent of the latter; actual differences by years are as follows:







Millions of Dollars

1926 .....	562,1
1927 .....	525,8
1928 .....	647,2
1929 .....	676,9
1930 .....	660,6
1931 .....	620,1
1932 .....	586,1

If the capitalization figures had not included in some cases surplus figures as well, the disparity would be greater still. One exception is mining capitalization which is much higher than the figure shown for capital employed, the reason being the nominal nature of most mining capitalization. It is well known that mining stock issued at a nominal par of \$1 or more may sell for a fraction of the face value at the time of issue and that large portions of the issue commonly bring in no funds because they are given to the discoverers of the property or to acquire new claims.

In the capital employed figures the following reasons help to explain the generally higher range of the figures:

1. The capitalization figures do not include branches of United States companies which are unincorporated in Canada. There are more than 200 of these which are simply a division of the United States incorporated firm. They are licensed to do business in Canada but having no Canadian incorporation they have no separate Canadian capitalization. The capital employed in such firms amounted to \$125 million in 1932.

2. Some \$40 million of surplus over the nominal capital of United States branch merchandising firms has not been included in the capitalization figures.

3. Some extensive timber limits and logging equipment have not been included anywhere in the capitalization figures. There may be allowed for this item the sum of \$25 million.

4. A large proportion of the remaining \$300 to \$500 million is due to profits ploughed into the business and not included in the surpluses added to the capitalization figures. In many cases extension of branch plants in Canada was probably made by capital loans from the parent concerns without any change in capitalization.

5. A part of the difference is probably accounted for by some exaggeration in the capital employed figures due to inclusion of items







which should be eliminated for the present purpose. For example, bank loans to industrial concerns would be included by the Census of Industry as part of the capital actually being employed in the current year in industry.

It should be obvious from the foregoing that an accurate estimate of capital investment from abroad in Canadian industry is impossible. It is, however, also certain that the figures may be taken as giving the order of magnitude of the outside investment in Canadian industry. After the reconciliations enumerated above are considered, the estimates based on capital employed are possibly not more than \$100 to \$200 million above those of capitalization plus additional enumerated factors, which is not an unduly large difference in an estimate of this nature.

The foregoing general discussion of the nature, difficulties and limitations of capital estimates will prepare the way for the tables of capital investment and the accompanying descriptive matter which follow. Table III gives the outside investment in Canada divided into geographical categories and investment groups.





TABLE I.

CAPITALIZATION TABLE

British and Foreign Investments in Canada in Specified Groups  
(In Millions of Dollars)

	: 1926	: 1927	: 1928	: 1929	: 1930	: 1931	: 1932
<u>TOTAL</u>							
Other Public Utilities (except railways) .....	455.8	516.4	521.2	558.5	590.3	584.6	558.6
Wood and Wood Products ...	305.4	389.2	419.4	437.8	439.9	413.3	394.2
Mining, Clay Products, etc.	409.8	397.2	415.4	447.4	443.1	448.5	443.9
Metal Industries .....	251.8	286.9	331.2	343.4	357.5	309.9	281.9
All other Industries .....	262.5	296.6	318.7	326.5	347.9	322.3	348.2
Merchandising and Service.	94.4	94.9	97.3	103.7	104.4	104.5	72.4
GRAND TOTAL .....	1,779.7	1,981.2	2,103.2	2,217.3	2,283.1	2,183.1	2,099.2
<u>GREAT BRITAIN</u>							
Other Public Utilities (except railways) .....	108.6	108.3	89.4	93.3	93.9	85.7	86.1
Wood and Wood Products....	66.5	80.6	79.0	75.1	74.7	69.7	70.5
Mining, Clay Products, etc.	132.4	129.7	121.9	109.5	105.1	104.3	103.6
Metal Industries .....	52.5	55.1	53.1	49.4	41.3	31.9	29.3
All other Industries .....	107.7	119.4	134.0	133.0	136.1	136.1	135.0
Merchandising and Service.	33.9	33.6	34.8	36.6	37.3	37.0	31.7
GRAND TOTAL .....	501.6	526.7	512.2	496.9	488.4	464.7	456.2
<u>UNITED STATES</u>							
Other Public Utilities (except railways) .....	344.4	404.9	427.8	460.6	491.9	494.4	467.2
Wood and Wood Products ...	238.2	308.0	339.6	361.6	364.1	342.4	322.2
Mining, Clay Products, etc.	274.6	264.4	290.1	333.9	333.0	337.7	334.4
Metal Industries .....	194.2	226.4	272.2	287.0	308.3	272.7	247.2
All other Industries .....	150.8	172.7	179.8	188.6	206.8	181.3	208.3
Merchandising and Service.	59.0	59.9	61.0	65.4	65.3	65.7	39.3
GRAND TOTAL .....	1,261.2	1,436.3	1,570.5	1,697.1	1,769.4	1,694.2	1,618.6
<u>OTHER COUNTRIES</u>							
Other Public Utilities (except railways) .....	2.8	3.2	4.0	4.6	4.5	4.5	5.3
Wood and Wood Products ...	0.7	0.6	0.8	1.1	1.1	1.2	1.5
Mining, Clay Products, etc.	2.8	3.1	3.4	4.0	5.0	6.5	5.9
Metal Industries .....	5.1	5.4	5.9	7.0	7.9	5.3	5.4
All other Industries .....	4.0	4.5	4.9	4.9	5.0	4.9	4.9
Merchandising and Service.	1.5	1.4	1.5	1.7	1.8	1.8	1.4
GRAND TOTAL .....	16.9	18.2	20.5	23.3	25.3	24.2	24.4





TABLE II.

CAPITAL EMPLOYED TABLE

British and Foreign Investments in Canada in Specified Groups.  
(In Millions of Dollars)

	1926	1927	1928	1929	1930	1931	1932	1933
<u>TOTAL</u>								
Other Public Utilities (except railways) .....	466.2	515.7	562.1	619.9	660.8	698.4	736.0	751.9
Wood and Wood Products..	473.6	512.9	569.7	566.9	596.0	525.4	484.1	458.4
Mining, Clay Products, etc. ....	318.9	331.9	393.8	403.2	412.5	389.3	366.0	368.3
Metal Industries .....	396.3	421.8	458.6	502.5	501.7	456.8	413.3	401.5
All other Industries ...	451.4	482.9	515.9	546.0	521.3	495.8	460.2	459.1
Merchandising and Service .....	235.4	241.8	250.3	255.7	251.4	237.5	225.7	219.3
GRAND TOTAL .....	2,341.8	2,507.0	2,750.4	2,894.2	2,943.7	2,803.2	2,685.3	2,658.5
<u>GREAT BRITAIN</u>								
Other Public Utilities (except railways) .....	111.8	123.7	134.9	148.7	158.5	167.6	176.6	180.4
Wood and Wood Products..	96.0	103.9	115.4	114.9	120.8	106.5	98.1	92.9
Mining, Clay Products, etc. ....	126.3	131.4	155.9	159.6	163.3	154.1	144.9	145.8
Metal Industries .....	72.4	77.1	83.8	91.8	91.7	83.5	75.5	73.4
All other Industries ...	185.0	197.9	211.4	223.8	213.6	203.2	188.0	188.1
Merchandising and Service .....	77.0	79.1	81.9	83.6	82.2	77.7	73.8	71.7
GRAND TOTAL .....	668.5	713.1	783.3	822.4	830.1	792.6	757.5	752.3
<u>UNITED STATES</u>								
Other Public Utilities (except railways) .....	349.6	386.8	421.6	464.9	495.6	523.8	552.0	563.9
Wood and Wood Products..	376.5	407.7	452.8	450.6	473.7	417.6	384.8	364.4
Mining, Clay Products, etc. ....	189.4	197.1	233.9	239.5	245.0	231.2	217.4	218.8
Metal Industries .....	319.6	340.1	360.9	405.2	404.6	368.4	333.3	323.8
All other Industries ...	259.0	277.1	296.0	313.3	299.1	284.4	264.0	263.4
Merchandising and Service .....	154.0	158.2	163.8	167.3	164.5	155.4	147.7	143.5
GRAND TOTAL .....	1,648.1	1,767.0	1,938.0	2,040.8	2,082.5	1,980.8	1,899.2	1,877.8
<u>OTHER COUNTRIES</u>								
Other Public Utilities (except railways) .....	4.6	5.1	5.6	6.1	6.6	6.9	7.3	7.5
Wood and Wood Products..	1.1	1.2	1.3	1.3	1.4	1.2	1.1	1.1
Mining, Clay Products, etc. ....	3.1	3.2	3.8	3.9	4.0	3.8	3.6	3.7
Metal Industries .....	4.2	4.5	4.9	5.4	5.3	4.9	4.4	4.3
All other Industries ...	7.4	7.9	8.4	8.9	8.5	8.1	7.5	7.5
Merchandising and Service .....	4.4	4.5	4.6	4.7	4.7	4.4	4.2	4.1
GRAND TOTAL .....	24.8	26.4	28.6	30.3	30.5	29.3	28.1	28.2





TABLE III.

ESTIMATED BRITISH AND FOREIGN CAPITAL INVESTED IN CANADA, CLASSIFIED ACCORDING TO MAIN TYPES  
(1926-1933)

	1926	1927	1928	1929	1930	1931	1932	1933
<b>Government Securities -</b>								
Dominion .....	650,673,870	647,285,190	638,450,681	591,359,211	692,465,948	646,353,357	703,099,961	765,018,006
Provincial .....	410,717,000	437,764,000	430,591,000	474,158,000	507,715,000	526,760,000	568,215,000	533,569,000
Municipal .....	374,573,000	396,776,000	384,396,000	398,821,000	421,901,000	428,531,000	402,146,000	385,813,000
	1,435,963,870	1,481,825,190	1,453,437,681	1,464,338,211	1,622,081,948	1,601,644,357	1,673,460,961	1,684,400,006
<b>Public Utilities -</b>								
Railways .....	1,636,106,159	1,665,726,672	1,700,807,535	1,836,397,314	1,899,224,484	1,966,381,571	1,956,343,324	1,950,173,967
Other--Traction, Light, Heat, Power, Telephone, etc..	466,217,856	515,754,633	562,192,270	619,992,563	660,814,136	698,494,570	736,048,829	751,905,137
<b>Industries -</b>								
Wood and Wood Products .....	473,674,430	512,971,197	569,727,870	566,970,209	596,022,468	525,451,680	484,178,712	458,461,192
Mining, Clay Products and Other Structural Materials..	318,916,967	331,934,434	393,846,772	403,206,304	412,520,615	389,342,043	366,074,500	368,356,359
Metal Industries .....	396,314,714	421,846,194	458,689,335	502,571,145	501,745,853	456,839,724	413,348,981	401,542,161
All Other Industries .....	451,479,497	482,973,383	515,962,361	546,089,908	521,307,620	495,827,113	460,243,078	459,150,246
Merchandising and Service .....	235,400,000	241,820,000	250,380,000	255,730,000	251,450,000	237,540,000	225,770,000	219,350,000
Insurance .....	92,716,000	105,959,000	102,052,000	104,513,000	142,593,000	151,642,000	160,493,000	161,670,000
Finance and Mortgage Corporations	228,663,200	254,375,411	287,228,747	322,913,785	321,316,016	293,928,801	286,290,217	283,352,187
Miscellaneous (agricultural lands, summer homes, prospecting, etc..)	75,000,000	75,000,000	78,000,000	80,000,000	80,000,000	78,000,000	77,000,000	75,000,000
<b>GRAND TOTAL (Great Britain, United States and Other Countries) .....</b>	<b>5,810,452,693</b>	<b>6,090,186,114</b>	<b>6,372,324,571</b>	<b>6,702,722,439</b>	<b>7,009,076,140</b>	<b>6,895,091,859</b>	<b>6,839,251,602</b>	<b>6,813,361,255</b>





TABLE III. Continued.

ESTIMATED BRITISH CAPITAL INVESTED IN CANADA, CLASSIFIED ACCORDING TO MAIN TYPES  
(1926-1933)

	1926	1927	1928	1929	1930	1931	1932	1933
<b>Government Securities -</b>								
Dominion .....	268,823,870	265,405,190	261,942,881	258,343,311	254,669,648	250,835,468	247,802,117	317,241,220
Provincial .....	77,031,000	75,268,000	69,915,000	75,569,000	74,498,000	75,308,000	89,623,000	84,427,000
Municipal .....	207,141,000	206,563,000	202,578,000	205,262,000	202,561,000	195,560,000	176,320,000	166,046,000
	552,995,870	547,236,190	534,435,881	539,174,311	531,728,648	521,703,468	513,745,117	567,714,220
<b>Public Utilities -</b>								
Railways .....	1,174,150,860	1,159,677,606	1,139,310,224	1,162,662,601	1,162,634,313	1,171,759,991	1,176,488,624	1,181,322,941
Other--Traction, Light, Heat, Power, Telephone, etc. ....	111,892,286	123,781,112	134,926,145	148,798,215	158,595,393	167,638,697	176,651,713	180,457,233
<b>Industries -</b>								
Wood and Wood Products .....	96,015,088	103,980,649	115,485,380	114,926,395	120,815,366	106,510,477	98,144,334	92,931,323
Mining, Clay Products and Other Structural Materials..	126,303,749	131,459,182	155,978,920	159,685,665	163,374,501	154,194,868	144,980,000	145,883,707
Metal Industries .....	72,444,625	77,111,670	83,846,438	91,867,844	91,716,984	83,508,337	75,558,416	73,400,180
All Other Industries .....	185,032,581	197,939,911	211,459,984	223,807,339	213,650,664	203,207,833	188,624,212	188,176,331
Merchandising and Service .....	77,000,000	79,100,000	81,900,000	83,650,000	82,250,000	77,700,000	73,850,000	71,750,000
Insurance .....	54,454,000	54,892,000	54,109,000	52,157,000	58,441,000	57,390,000	61,403,000	66,793,000
Finance and Mortgage Corporations	139,769,760	143,854,441	157,431,159	169,835,543	188,722,925	163,802,654	158,271,668	155,768,181
Miscellaneous (agricultural lands, summer homes, prospecting, etc..	10,000,000	10,000,000	11,000,000	11,000,000	11,000,000	10,000,000	10,000,000	10,000,000
<b>GRAND TOTAL .....</b>	<b>2,600,058,819</b>	<b>2,629,032,761</b>	<b>2,679,883,131</b>	<b>2,757,564,913</b>	<b>2,782,929,794</b>	<b>2,717,416,325</b>	<b>2,677,717,090</b>	<b>2,734,197,116</b>





TABLE III. Continued

ESTIMATED UNITED STATES CAPITAL INVESTED IN CANADA, CLASSIFIED ACCORDING TO MAIN TYPES  
(1926-1933)

	1926	1927	1928	1929	1930	1931	1932	1933
<b>Government Securities -</b>								
Dominion .....	381,850,000	381,880,000	376,507,800	333,015,900	437,796,300	395,517,889	455,297,844	447,776,786
Provincial .....	328,624,000	357,717,000	356,235,000	394,506,000	429,291,000	447,861,000	475,335,000	445,885,000
Municipal .....	167,432,000	190,213,000	181,818,000	193,559,000	219,340,000	232,971,000	225,826,000	219,767,000
	877,906,000	929,810,000	914,560,800	921,080,900	1,086,427,300	1,076,349,889	1,156,458,844	1,113,428,786
<b>Public Utilities -</b>								
Railways .....	438,820,378	485,332,145	539,603,154	649,286,386	712,008,377	769,522,278	755,548,697	745,349,023
Other--Traction, Light, Heat, Power, Telephone, etc. ....	349,663,392	386,815,975	421,644,202	464,994,422	495,610,602	523,870,927	552,036,622	563,928,853
<b>Industries -</b>								
Wood and Wood Products .....	376,529,753	407,767,246	452,883,839	450,691,739	473,785,745	417,688,139	384,879,739	364,436,560
Mining, Clay Products and Other Structural Materials ..	189,455,624	197,188,773	233,968,379	239,528,497	245,061,752	231,292,303	217,470,000	218,825,560
Metal Industries .....	319,608,640	340,198,543	369,910,754	405,299,310	404,633,752	368,419,132	333,345,952	323,824,324
All Other Industries .....	259,045,613	277,115,876	296,043,978	313,330,275	299,110,930	284,490,967	264,073,897	263,446,863
<b>Merchandising and Service .....</b>	154,000,000	158,200,000	163,800,000	167,300,000	164,500,000	155,400,000	147,700,000	143,500,000
<b>Insurance .....</b>	38,261,000	49,667,000	46,543,000	50,856,000	82,637,000	92,854,000	97,512,000	93,294,000
<b>Finance and Mortgage Corporations</b>	41,266,295	61,512,827	75,947,136	98,898,016	95,672,399	97,694,690	94,757,099	93,197,046
<b>Miscellaneous (agricultural lands, summer homes, prospecting, etc..</b>	60,000,000	60,000,000	62,000,000	64,000,000	64,000,000	63,000,000	62,000,000	60,000,000
<b>GRAND TOTAL .....</b>	3,104,556,695	3,353,608,385	3,576,905,242	3,825,265,545	4,123,447,857	4,080,582,325	4,065,782,850	3,983,231,015





TABLE III. Continued

ESTIMATED CAPITAL OF ALL OTHER COUNTRIES INVESTED IN CANADA, CLASSIFIED ACCORDING TO MAIN TYPES.  
(1926-1933)

	1926	1927	1928	1929	1930	1931	1932	1933
<b>Government Securities -</b>								
Dominion .....	5,062,000	4,779,000	4,441,000	4,083,000	3,926,000	3,591,000	3,257,000	3,257,000
Provincial .....	-	-	-	-	-	-	-	-
Municipal .....	-	-	-	-	-	-	-	-
<b>Public Utilities -</b>								
Railways .....	23,134,921	20,716,921	21,894,157	24,448,327	24,581,794	25,099,302	24,306,003	23,502,003
Other--Traction, Light, Heat, Power, Telephone, etc. ....	4,662,178	5,157,546	5,621,923	6,199,926	6,608,141	6,984,946	7,360,488	7,519,051
<b>Industries -</b>								
Wood and Wood Products .....	1,129,589	1,223,302	1,358,651	1,352,075	1,421,357	1,253,064	1,154,639	1,093,309
Mining, Clay Products and Other Structural Materials...	3,157,594	3,286,479	3,899,473	3,992,142	4,084,362	3,854,872	3,624,500	3,647,092
Metal Industries .....	4,261,449	4,535,981	4,932,143	5,403,991	5,395,117	4,912,255	4,444,613	4,317,657
All Other Industries .....	7,401,303	7,917,596	8,458,399	8,952,294	8,546,026	8,128,313	7,544,969	7,527,052
<b>Merchandising and Service .....</b>	4,400,000	4,520,000	4,680,000	4,780,000	4,700,000	4,440,000	4,220,000	4,100,000
<b>Insurance .....</b>	1,000	1,400,000	1,400,000	1,500,000	1,515,000	1,398,000	1,578,000	1,583,000
<b>Finance and Mortgage Corporations</b>	47,627,145	49,008,143	53,850,452	54,180,226	36,920,692	32,431,457	33,261,450	34,386,960
<b>Miscellaneous (agricultural lands, summer homes, prospecting, etc..</b>	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
<b>GRAND TOTAL .....</b>	105,837,179	107,544,968	115,536,198	119,891,981	102,698,489	97,093,209	95,751,662	95,933,124





Government Securities.--In the first group are included all government securities whether Dominion, Provincial or Municipal. Guaranteed railway bonds are included with railways. The valuations of government securities are on the basis of par value. The geographical distribution of ownership is the original distribution when the bonds were first sold.

Public Utilities.--These are divided into two sub-groups:

1. Steam railways; 2. All other utilities.

Steam Railways.--Capital investment estimate in steam railways is made up of the bonds and debentures of the Canadian National, both guaranteed and unguaranteed, those of the Canadian Pacific and of miscellaneous railways. To these are added the common and preference stocks of Canadian Pacific and of miscellaneous railways where they have any value. The securities of Canadian railway lines located in the United States are omitted. In 1933 the following amounts were included:

In 1933 the total investment on the basis above described was \$2,438 million, of which \$488 million was owned in Canada, \$1,181 million was owned in Great Britain, \$745 million in United States and \$24 million in other countries. The following is a summary of holdings:

British and Foreign Investment in Canadian Railways, 1933

	Canada	Great Britain	United States	Other Countries
	\$	\$	\$	\$
Canadian National Guaranteed Bonds and Debentures .....	242,335,974	424,550,072	368,291,000	-
Canadian National Bonds and Debentures Not Guaranteed .....	17,013,416	114,240,955	58,113,700	-
Canadian Pacific Bonds and Debentures .....	133,825,113	294,286,254	153,197,733	2,052,000
Canadian Pacific Common ..	61,841,000	160,967,500	92,292,500	19,899,000
Canadian Pacific Preference .....	631,382	134,278,446	796,090	1,551,003
Miscellaneous Bonds and Debentures .....	28,615,207	47,444,081	39,298,000	-
Miscellaneous Stocks ....	3,250,000	5,555,633	33,000,000	-
TOTAL .....	487,512,092	1,181,322,941	744,989,023	23,502,003



All Other Public Utilities.--These include traction companies, light, heat and power companies (electric, natural and artificial gas), telephone companies, steamship companies, harbour commissions, etc. The basis for the estimate is the capital employed figure of the annual industrial census with certain additions. To central electric stations 10 per cent is added to include other systems. Capitalization figures are used for harbour commissions and a round figure of \$10 million is added for miscellaneous utilities, such as radio transmission stations, bus companies and others.

Total capital employed in other public utilities was \$2,256 million in 1933 (of which \$535 million is in government-owned hydro-electric, telephone and traction systems), the ownership being: Canada, \$1,504 million; United States, \$564 million; Great Britain, \$180 million; and, other countries, \$8 million.

Wood and Wood Products (including logging and timber limits).--Census of Industry figures for capital employed are used as a basis for this estimate but additions are made for investments in logging equipment and timber limits. The group comprises all the pulp, paper and lumber industries. In 1933 the total investment was \$1,093 million, the ownership being distributed as follows: Canada, \$635 million; United States, \$364 million; Great Britain, \$93 million; and, other countries, \$1 million.

Mining, Clay Products and Other Structural Materials.--Census of Industry figures for capital employed are used as the basis for this estimate. The group includes all metallic mineral industries and also non-metallic, such as coal, asbestos, salt, clay products, and other structural materials. Natural gas has been deducted from this group and is included in public utilities. In 1933 the total investment was \$729 million, the ownership being: Canada, \$361 million; United States, \$219 million; Great Britain, \$146 million; and, other countries, \$3 million.

Metal Industries and Non-Metallic Mineral Products.--Annual Census of Industry figures of capital employed form the basis for this estimate. Those used are exclusive of non-ferrous metal smelting and refining, salt, clay products, cement and lime, all of which are included in the Mining, Clay Products and Other Structural Materials Group, also





capital employed in the manufacture of artificial gas which appears under public utilities. In 1933 the total capital employed was \$864 million, the ownership of which was divided as follows: Canada, \$463 million; United States, \$324 million; Great Britain, \$73 million; and, other countries, \$4 million.

All Other Industries.--Annual Census of Industry figures of capital employed form the basis for this estimate. Included in this group are those industries classified under the following heads: Vegetable Products, Animal Products, Textiles and Textile Products, Chemicals and Allied Products, and Miscellaneous Industries. Total capital employed in these industries was \$1,255 million, of which \$796 million was owned in Canada, \$263 million in United States, \$188 million in Great Britain, and \$8 million in other countries.

Merchandising and Services.--This estimate was based on the Census of Merchandising and Service Establishments taken in 1931 covering the year 1930.

Estimates were carried back to 1926 and on from 1930 on the basis of more or less inadequate supplementary information which was available. The annual Census of Merchandising does not include a question on capital employed, but some of the data which it does furnish throws some indirect light on the question of capital investment. In 1933 it was estimated that the total capital employed was \$2,050 million, of which \$1,830 million was owned in Canada, \$144 million in the United States, \$72 million in Great Britain, and \$4 million in other countries.

Insurance.--Investments of British and foreign insurance companies in Canada are taken to be the surplus of assets over liabilities, excluding capital stock and reserve. Details are published in the annual reports of the Dominion Superintendent of Insurance. Data concerning purely provincial companies is more difficult to ascertain. However, provincial companies control only between 5 per cent and 10 per cent of the total fire and 2 per cent to 3 per cent of the total life business. Since foreign interest in this business is small, the omission of provincial companies is of little moment. For the purpose of this calculation, it is assumed that British and foreign companies are entirely owned outside Canada and that Canadian companies are entirely owned in





Canada. Total investment by British and foreign insurance companies in 1933 was \$162 million divided as follows: Great Britain, \$67 million; United States, \$93 million; and, other countries, \$2 million.

Finance, Land and Mortgage Corporations.--This group includes banks, trust and loan companies, mortgage corporations, investment trusts and real estate companies. Capital investment in banks is taken to be the liabilities to shareholders indicated in paid up capital plus reserve funds. For trust, loan and mortgage companies, paid up capital plus reserves are taken. In addition, outstanding debentures and guaranteed investment certificates are included; for investment trusts, capital stock and bonds or debentures; for real estate companies, capital stock and bonds. In the latter class capital stock is frequently nominal and the real financing is done by means of bonds.

In 1933 the total investment in this group was \$1,038 million, of which Canadians owned \$755 million, Great Britain \$156 million, United States \$93 million, and other countries \$34 million.

Miscellaneous Group.--The figures in this group are a mere guess. It is a well known fact that many citizens of the United States have summer homes in Canada. Many more have fish and game clubs in various sections of the Dominion. Agricultural lands are sometimes owned by people in other countries and are rented or leased to residents of Canada or may be worked by a staff or agent. Considerable sums of money are invested in Canada in prospecting for mines or carrying on development work. When such investments come to fruition, they are included in the mining group, but when they do not reach the stage of discovery or production, an attempt is made to account for the investment in this group. It is hoped that further research will yield more reliable figures. Total investment by outsiders was estimated to be \$75 million, of which \$10 million was from Great Britain, \$60 million from United States, and \$5 million from other countries.



TABLE IV.

ESTIMATED CANADIAN INVESTMENTS ABROAD, DECEMBER 31, 1932-1933.

(000's omitted)

	: : 1926	: : 1927	: : 1928	: : 1929
1. Canadian Government Credits ...	36,113	32,434	31,100	30,888
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	380,952	364,573	273,580	186,755
3. Investments of Insurance Companies held Abroad .....	215,709	244,808	297,045	356,924
4. Foreign Securities held in Canada by Insurance Companies.	91,444	124,154	156,435	184,572
5. Direct Industrial Investments..	397,000	401,500	412,000	423,500
6. Miscellaneous .....	360,000	510,000	635,000	775,000
7. Total 4, 5 and 6 .....	848,444	1,035,654	1,203,435	1,383,072
8. GRAND TOTAL .....	1,481,218	1,677,469	1,805,159	1,957,640

GREAT BRITAIN

1. Canadian Government Credits ...	-	-	-	-
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	41,962	42,737	34,065	30,828
3. Investments of Insurance Companies held Abroad .....	28,042	31,825	38,616	46,400
4. Foreign Securities held in Canada by Insurance Companies.	1,829	2,483	3,129	3,691
5. Direct Industrial Investments..	7,000	7,500	8,000	8,500
6. Miscellaneous .....	10,000	10,000	10,000	10,000
7. Total 4, 5 and 6 .....	18,829	19,983	21,129	22,191
8. GRAND TOTAL .....	88,833	94,545	93,810	99,420

UNITED STATES

1. Canadian Government Credits ...	-	-	-	-
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	273,088	256,517	189,315	98,704
3. Investments of Insurance Companies held Abroad .....	150,996	171,366	207,931	249,847
4. Foreign Securities held in Canada by Insurance Companies.	68,583	93,115	118,890	142,121
5. Direct Industrial Investments..	250,000	251,000	257,000	259,000
6. Miscellaneous .....	195,000	270,000	345,000	445,000
7. Total 4, 5 and 6 .....	513,583	614,115	720,890	846,121
8. GRAND TOTAL .....	937,667	1,041,998	1,118,137	194,671

OTHER COUNTRIES

1. Canadian Government Credits ...	36,113	32,434	31,100	30,888
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	65,910	65,319	50,200	57,223
3. Investments of Insurance Companies held Abroad .....	36,670	41,617	50,498	60,677
4. Foreign Securities held in Canada by Insurance Companies.	21,032	28,555	34,416	38,760
5. Direct Industrial Investments..	140,000	143,000	147,000	156,000
6. Miscellaneous .....	155,000	230,000	280,000	320,000
7. Total 4, 5 and 6 .....	316,032	401,555	461,416	514,760
8. GRAND TOTAL .....	454,717	540,925	593,213	663,548





TABLE IV. Continued

ESTIMATED CANADIAN INVESTMENTS ABROAD, DECEMBER 31, 1932-1933.

(000's omitted)

	1930	1931	1932	1933
1. Canadian Government Credits ...	30,666	30,523	30,495	30,495
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	186,539	158,085	125,334	99,936
3. Investments of Insurance Companies held Abroad .....	450,997	501,827	530,083	504,570
4. Foreign Securities held in Canada by Insurance Companies.	156,637	145,728	144,199	137,786
5. Direct Industrial Investments..	438,000	440,000	441,000	442,000
6. Miscellaneous .....	795,000	810,000	810,000	814,000
7. Total 4, 5 and 6 .....	1,389,637	1,395,728	1,395,199	1,393,786
8. GRAND TOTAL .....	2,057,840	2,086,163	2,081,111	2,028,787
<u>GREAT BRITAIN</u>				
1. Canadian Government Credits....	-	-	-	-
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	40,335	23,156	17,786	22,062
3. Investments of Insurance Companies held Abroad .....	58,630	65,238	68,911	65,594
4. Foreign Securities held in Canada by Insurance Companies.	3,133	2,915	3,199	3,340
5. Direct Industrial Investments..	9,000	9,000	9,000	9,000
6. Miscellaneous .....	10,000	10,000	10,000	10,000
7. Total 4, 5 and 6 .....	22,133	21,915	22,199	22,340
8. GRAND TOTAL .....	121,097	110,308	108,896	109,997
<u>UNITED STATES</u>				
1. Canadian Government Credits ...	-	-	-	-
2. Net Assets of Canadian Banks Abroad (including Foreign Securities) .....	96,472	82,895	79,951	47,530
3. Investments of Insurance Companies held Abroad .....	315,698	351,279	371,058	353,199
4. Foreign Securities held in Canada by Insurance Companies.	122,177	113,668	114,000	109,517
5. Direct Industrial Investments..	260,000	260,000	260,000	260,000
6. Miscellaneous .....	465,000	480,000	480,000	484,000
7. Total 4, 5 and 6 .....	847,177	853,668	854,000	853,517
8. GRAND TOTAL .....	1,259,347	1,287,842	1,305,009	1,254,246
<u>OTHER COUNTRIES</u>				
1. Canadian Government Credits ...	30,666	30,523	30,495	30,495
2. Net Assets of Canadian Banks Abroad (including Foreign Securities).....	49,733	52,034	27,597	30,344
3. Investments of Insurance Companies held Abroad .....	76,669	85,311	90,114	85,777
4. Foreign Securities held in Canada by Insurance Companies.	31,327	29,146	27,000	24,928
5. Direct Industrial Investments..	169,000	171,000	172,000	173,000
6. Miscellaneous .....	320,000	320,000	320,000	320,000
7. Total 4, 5 and 6 .....	520,327	520,146	519,000	517,928
8. GRAND TOTAL .....	677,396	688,014	667,206	664,544





### Canadian Investments Abroad

Investment of other countries in Canada is only one side of the picture as it relates to Canada since Canadians have considerable sums invested in other countries the total of which is an offset to British and foreign investment in Canada. It is estimated that Canadian investments abroad totalled \$2,028 million in 1933. Of this \$110 million was in Great Britain, \$1,254 million in United States, and \$664 million in other countries.

These investments are classified into six main groups. For some of the groups, very complete information is available. For others definite information is lacking and the basis on which the estimates are made leaves much to be desired. A description of the method used to obtain group figures will bring out the character of each estimate.

1. Investments Abroad on Account of Dealings With Governments of Other Countries.--This item is the amount outstanding of loans made by Canada to foreign governments during and after the war. Figures are available annually in the Public Accounts of the Dominion. For the fiscal year ending March, 1934, they were as follows: Advances to Greek Government, \$6,525,000, and to Roumanian Government, \$23,969,720.

2. Dominion Government Bank Balances Abroad.--These are balances to the credit of the Dominion Government in banks in New York and London. They can scarcely be called investments but since they represent a Canadian credit located abroad they are included. They should probably appear as short-term funds located abroad.

3. Commercial Bank Net Balances Abroad.--Previously this item was calculated from monthly returns of the Chartered Banks, the year end figure being taken. It was the difference between asset and liability items shown as existing abroad. Unfortunately, it is impossible from the monthly statement to ascertain all the items which are applicable. A special return is now compiled by the banks themselves and was carried back by them to 1926.

The figure now supplied by the banks also includes the British and foreign securities held by the banks among their assets abroad. A separate item was hitherto shown for the holdings of British and foreign securities based on information received from the banks. It will no



longer be necessary to separate the two.

4. Insurance Companies' Investments.--These come under two heads. In the first place, there are the investments in Canadian insurance branch businesses in other countries. In the second place, there are the foreign securities owned by Canadian insurance companies and held in Canada. Under the first head the purpose is to indicate the amount of investment which Canadian insurance companies have in their branches and agencies abroad. The method adopted is to take the total ledger assets out of Canada as shown in the report of the Superintendent of Insurance. These have to be extracted separately for each company in the report. Other types of insurance companies do not record their foreign assets separately but, as these are of relatively small importance in the foreign field, an addition of perhaps \$5 million covers them adequately.

This method seems open to some strong objections and research is being made in the field in the hope of devising a better method. To attribute Canadian ownership to all the ledger assets held abroad by Canadian insurance companies seems unreasonable in view of the fact that the reserve against insurance contracts may be as large or larger than the ledger assets. These assets are made possible by the premium payments of British and foreign policy holders in the branch Canadian companies. In some sense, they are similar to the deposits of banks and against the assets must be placed the reserve liability. When this is done the investment abroad disappears. It would seem that the net result is a balance of investment in Canada by these branches rather than from Canada abroad.

Nevertheless, it seems extreme to take the view that there are no Canadian life insurance investments abroad since the Canadian head offices exercise some measure of control over their foreign branches. The best policy is probably that of including the figures as a Canadian investment abroad and offsetting them by including in investment of British and foreign insurance companies in Canada a like amount. This method of handling insurance investments is the subject of research at present.





Investment in securities is the chief outlet for the funds of insurance companies. Canadian insurance companies have large investments in British and foreign securities, information concerning which is available in the reports of the Superintendent of Insurance. A study of the various schedules accompanying each company statement will reveal the foreign securities held in Canada. Many more are held, of course, by the branches abroad and appear among their assets. In 1933 foreign securities held in Canada by Canadian insurance companies amounted to \$138 million. Of these, \$3 million were British securities, \$110 million United States, and \$25 million those of other countries.

5. Direct Investments.--This group includes all the investments which Canadians have in branch or subsidiary companies abroad. Many Canadian industrial companies have branches in other countries as, for example, the interests of the Massey-Harris Company in United States, Australia and other countries, or the branches of Canadian distilleries in the United States. There are also large Canadian railway investments in the United States. Canadian governments own buildings abroad and Canadian banks, investment dealers, etc., have branches. Direct industrial investments do not include the investments of Canadian corporations representing a minority stock ownership in a foreign company where no control is involved. Such are included in portfolio investments.

It is estimated that in 1933 direct industrial investments amounted to \$442 million; \$9 million was in Great Britain, \$260 million in United States, and \$173 million in other countries.

6. Miscellaneous Investments.--This group is intended to include all the investments abroad not previously accounted for. At present it consists of estimates of the portfolio investments abroad apart from securities held by banks and insurance companies. Therefore, it includes the holdings of British and foreign bonds and stocks by all other Canadian corporations and by individuals. It is well known that Canadians have made large commitments in the New York Stock Market, especially in the period 1926 to 1929. Unfortunately, large sums were lost there in 1929 and 1930 by Canadians who had purchased securities on margin. Canadians also purchased in the same period foreign bonds, such





as Brazils, Chilean, French Line, Italian and German. In recent years a great many of these have been in default. It is estimated that total investments in this group were \$814 million in 1933, of which \$10 million was in Great Britain, \$484 million in the United States and \$320 million in other countries.

It has proven extremely difficult up to the present to obtain any reliable basis for estimates in this group. Some information has been secured concerning Canadian holdings in United States industrial and public utility corporations, but only partially covers the field and includes the holdings of banks and insurance companies. Scraps of information appearing in financial papers and the opinions of officials in bond houses very closely in touch with the market furnish a limited amount of information on Canadian purchases of foreign bonds such as Brazils, etc. This also includes the purchases of banks and insurance companies. The information available leaves room for a large margin of error. It is hoped, however, that the result of inquiries now underway in the United States Department of Commerce, Finance and Investment Division, will furnish much more reliable data regarding Canadian holdings of United States securities. It is also hoped that further research will yield more definite results regarding other foreign holdings. It is a field, however, which will always be subject to an important margin of error because of the many ramifications of ownership. For example, it is possible for a Canadian to be represented by a corporation in some other country which possesses securities in his behalf. He may be the real recipient of income from such, although ostensibly it goes to another country. The same may be true, of course, in the case of Canadian securities. Nominally they may be in the hands of a Canadian corporation, while actually they are owned by someone in another country who owns the corporation.

In 1932 a circular was sent to all firms on the United States stock exchange list asking for particulars as to Canadian ownership in the securities of each concern. About 75 per cent of the schedules were returned. These showed Canadian participation to the amount of \$483 million, but some obvious errors considerably reduced the total. To be conservative, \$350 million was accepted.



Many firms, of course, could give no information as to the ownership of bonds and some gave no information of any kind. It was estimated roughly that \$350 millions covered two-thirds of the Canadian portfolio investment. If so, a total of, say, \$500 millions is reached. From this should be deducted the amount of American securities held in Canada by insurance companies and banks so as to arrive at the holdings of other corporations and individuals. It is known that \$114 million is the figure for insurance companies. Banks held \$34 million of American securities, but these were probably held in the United States by Canadian branches with only minor exceptions. A total figure of \$120 million was taken which, deducted from \$500 million, leaves \$380 million as the investment of other Canadian investors.

Canadian investments in the miscellaneous group in the United States in 1932 appear as \$480 million but this makes no allowance for the losses incurred in the stock market in 1929-1930. It is possible that as much as \$100 million was lost through failure of margin coverage. No deduction has been made for these losses pending a further search for data and, therefore, the figures in the existing table are possibly \$100 million too high. Allowing for these losses, the figure in 1932 in the table would be \$380 million. Figures back to 1926 and forward to 1933 are based on the estimate of the movement for each year. From 1926 to 1932 the estimate of the yearly movement in the absence of comprehensive data must be considered as approximate. From 1933 onward some assistance is obtained by a monthly inquiry concerning the sale and purchase of securities.

Canadian holdings of British securities, apart from those held by banks and insurance companies, are probably not large and have been estimated at \$10 million.

Holdings in other countries, apart from the holdings of banks and insurance companies, were estimated at \$320 millions in 1933. Many of the foreign bonds included in this group have defaulted, but there has been no writing down of their values for the purpose of the estimate. There is no means of knowing what their ultimate value will be, hence they are carried at the original value for the present.





There is even more difficulty in making this estimate than that for holdings in the United States. In the year 1926 it was estimated by Professor K. W. Taylor that the amount of such securities owned by Canadians was \$155 million. His starting point was an estimate made by the Dominion Securities Corporation that during the eighteen months ending June, 1926, \$100 million of such bonds were bought by Canadians. This estimate of \$155 million was taken as the Bureau's starting point in the belief that it was the best estimate at present attainable. For subsequent years the estimates are based on odd references in financial papers and on opinions of bond dealers who handled such bonds. This leaves much to be desired, but no better basis for an estimate is immediately in prospect. Of course, this group also includes the portfolio holdings of Canadians in International Petroleum, Brazilian Traction, etc. Direct investments in such companies is included elsewhere (Group 5).

From 1926 to 1933 an increase of \$165 million is shown in the miscellaneous investments group under the head of other countries. More recent investigations indicate that this figure is probably too high since this amount would be additional to investments of insurance companies and banks in these fields.

#### ITEMS ENTERING INTO THE BALANCE OF INTERNATIONAL PAYMENTS

##### Commodity Trade

The export and import of goods constitute the largest debit and credit item in Canada's international transactions, as is usually true in all countries. Export and import statistics as published in the trade reports are subject to certain corrections for the purpose of the balance of payments statement. The nature of these is as follows:

Canadian import statistics include all goods "entered for consumption," that is, goods which have passed through the customs and into the hands of the importer. They do not include goods in transit, as for example, goods passing from the United States via Windsor, through Southern Ontario to another United States point, nor do they include goods still held in bond. Both import and export statistics include certain items which are of a non-commercial nature involving no transfer





of funds. These non-commercial items include: Settlers' effects, articles to be ex-warehoused for ships' stores, free advertising materials, cinematograph films which are later paid for on more or less of a royalty basis and elsewhere accounted for, donation of articles from abroad, apparel of Canadians dying abroad, trophies won in competition, etc. Two items require special notice.

1. Animals Imported and Exported for Exhibition Purposes.---

These are imported free of duty provided they are to be exported within three months, and are recorded as imports ex-warehoused for exhibition purposes. If they should be sold in Canada, a return must be made and the duty paid, in which case they are again recorded but as ex-warehoused for consumption purposes. Imports for exhibition purposes must, therefore, be deducted from the import totals. A similar deduction must be made for exhibition animals exported.

2. Unrecorded Import of Ships.---Not all ships imported into Canada are entered in the customs returns. Two items appear in the classifications as follows:

(1) "Ships built in any foreign country if British registered since September 1, 1902, on application for license to engage in the Canadian coasting trade";

and

(2) "Vessels, dredges, scows, yachts, boats and other water-borne craft, built outside of Canada for use in Canadian waters (not including vessels engaged in the coasting trade, nor vessels in transit between Canada and any place outside thereof)."

It is apparent from examination of the customs figures that all vessels which are used in the foreign trade, whether produced in Great Britain or elsewhere, and also vessels for use in the coastwise trade if constructed in Great Britain, whether old or new, are not entered through the Canadian customs. Those ships which are entered--in addition to small pleasure craft--are the foreign built ships which have been transferred to a Canadian port of registry in order to engage in the coastal or lake trade. Among the ships omitted would be the C.P.R. lines which are international in their activities. Since pur-



chase of such ships involves a transfer of funds from the Dominion, an addition must be made to the recorded figure for customs imports. Lists of these ships are obtained through port records and the owners circularized. Some assistance has also been obtained from British trade returns for earlier years.

In addition to the above corrections, another type of adjustment has been necessary due to the exchange situation. Special values for duty were proclaimed by order-in-council for many countries, though not for all, whose currency was depreciated. Currencies on gold were entered in terms of Canadian dollars, though the British pound sterling when at a premium in Canadian dollars in 1934 was entered for duty purposes at par. It is obvious that these values for duty did not represent actual remittances from Canada. Where the British pound sterling or any other currency was depreciated and was entered at par, there was a case of overvaluation in terms of Canadian dollars. Where the British pound was at a premium and was entered at par, there was undervaluation in terms of Canadian dollars from the point of view of the balance of payments. An estimate of the amounts of over- or undervaluation was made based on a study of the trade returns.

Another source of error in trade statistics, for which no allowance has been made, arises through dumping regulations. Item 36 of memorandum No. 419, 2nd revision, of the Department of National Revenue reads:

(1) "Such market value shall be the fair market value of such goods in the usual and ordinary commercial acceptation of the term and as sold in the ordinary course of trade, such value in no case to be lower than the selling price thereof to jobbers or wholesalers generally at the time and place of shipment direct to Canada."

(2) "Provided that the value for duty of new or unused goods shall in no case be less than the actual cost of production of similar goods at date of shipment direct to Canada, plus a reasonable advance for selling cost and profit, and the Minister shall be the sole judge of what shall constitute a reasonable advance in the circumstances and his decision thereon shall be final."





The other item is No. 43 in the same memorandum.

"If at any time it appears to the satisfaction of the Governor in Council on a report from the Minister that goods of any kind not entitled to entry under the British Preferential tariff or any lower tariff are being imported into Canada either on sale or on consignment under such conditions as prejudicially or injuriously to affect the interests of Canadian producers or manufacturers, the Governor in Council may authorize the Minister to fix the value for duty of any class or kind of such goods, and notwithstanding any other provision of this Act, the value so fixed shall be deemed to be the fair market value of such goods."

It is probable that Section 43 operates in the main to keep out imports which from certain points of view are considered undesirable so the question of valuation does not arise, but under Section 36 there are numerous imports which have a special valuation for duty purposes set upon them in accordance with the terms of the Act. These valuations are higher than the invoice value and represent to that extent an overvaluation from the point of view of the balance of international payments. No information is available to show the extent of the overvaluation and no attempt has yet been made to estimate it.





CORRECTED TOTALS OF COMMODITY TRADE, 1934.  
(000's omitted)

	Total	U.K.	U.S.A.	Other
	\$	\$	\$	\$
<b>IMPORTS</b>				
Recorded imports of merchandise for consumption .....	513,469	113,418	293,780	106,271
Unrecorded imports of ships .....	300	300	-	-
	513,769	113,718	293,780	106,271
Deductions for settlers' effects and other non-commercial imports .....	8,294	1,049	6,756	489
	505,475	112,669	287,024	105,782
Correction for overvaluation and undervaluation .....	1,474	2,900	2,700	1,674
Corrected total of commodity imports..	504,001	115,569	284,324	104,108
Items included in deductions for settlers' effects, etc., above -				
Animals and articles for exhibition purposes .....	2,701	264	2,402	35
Settlers' effects .....	2,991	192	2,642	157
Articles to be ex-warehoused for ships stores .....	258	133	90	35
Medals of gold, silver or copper won in competition, etc. ....	35	12	20	3
Advertising chromos, oleographs, pamphlets, showcards, bills, folders and posters .....	960	139	790	31
Cinematograph films .....	453	70	306	77
Casual donations from abroad .....	8	1	7	-
Articles presented from abroad ....	-	-	-	-
Wearing apparel of Canadians dying abroad .....	124	65	52	7
Donations of clothing, books, etc., for charitable purposes .....	73	3	70	-
Models of inventions and other improvements in the arts .....	135	2	115	18
Paintings and pastels of Canadians residing temporarily abroad .....	556	168	262	126
TOTAL .....	8,294	1,049	6,756	489
<b>EXPORTS</b>				
Recorded exports of merchandise .....	659,903	271,212	227,994	160,697
Exports of silver and copper coin, domestic and foreign .....	648	26	609	13
	660,551	271,238	228,603	160,710
Deductions for settlers' effects and other non-commercial exports .....	3,743	515	2,927	301
Corrected total of commodity exports .	656,808	270,723	225,676	160,409
Items included in deductions for settlers' effects, etc., above -				
Animals for exhibition purposes ...	104	-	104	-
Settlers' effects .....	3,283	494	2,556	233
Films for moving pictures (exports of Foreign Produce only) .....	356	21	267	68
TOTAL .....	3,743	515	2,927	301



Imports and Exports of Gold Coin and Bullion and  
Subsidiary Coin

Gold appears as an export in two principal categories. Part of it is included in the commodity trade figures under the classification "gold bearing quartz, nuggets and (crude) bullion obtained direct from mining operations." This was an important item up to recent years when it became compulsory to send crude bullion from the mines to the Canadian mint. Some concentrates containing gold are still being shipped to foreign smelters for treatment. In order to segregate all gold figures, the value of the latter is deducted from the figures for commodity trade and included with the gold coin and bullion item. Several small items covering commercial gold in various forms are left in the commodity trade figures because of their minor importance.

Gold in the form of bullion, bars and coin is shown separately in export figures. In the case of both imports and exports, it has been found that transactions have taken place which were missed in the trade records. For this reason a special calculation is made for the movement of gold and subsidiary coin in order to cover unrecorded imports and exports.

Up to 1934 and during the early part of that year, gold was valued in the trade returns at the standard \$20.67 per ounce. Latterly it has been valued at the current price in Canadian dollars. Since it has frequently been sold at a premium, a correction has to be made in order to arrive at its value in current Canadian dollars.





Gold Movements, 1934

Dominion Government Reserves (Canada Gazette)

Gold held December 31, 1933, against notes in circulation .....	68,756,005
Gold held against Savings Bank deposits (10% of \$22,918,436) under the Savings Bank Act .....	2,291,843
In excess of statutory reserves .....	<u>917,756</u>
Total gold held December 31, 1933, by Minister of Finance .....	71,965,604

Gold Held by Banks

In Central Gold Reserve December 31, 1933, (Gen. Stat.) .....	5,181,732	
Current gold and subsidiary coin in Canada December 31, 1933, (monthly bank statement) .....	<u>39,351,862</u>	<u>44,533,594</u>
		116,499,198
Recorded imports of gold coin and bullion 1934 .....		764,000
Gold received at mint (including secondary gold) 1934 .....		<u>61,107,722</u>
Total monetary gold recorded during 1934 ....		178,370,920

Deduct

Exports of gold coin and bullion 1934 ....	63,009,013	
Gold used in Arts (say), 1934 .....	<u>1,200,000</u>	<u>64,209,013</u>
Apparent amount of gold on hand December 31, 1934 .....		114,161,907
Actual gold in Canada December 31, 1934 <sup>x</sup> ....		<u>116,906,405</u>
Unrecorded import .....		<u>2,744,498</u>

<sup>x</sup> Consists of Dominion Government Reserves and gold held by banks  
December 31, 1934.

1. The figures in the above table are on the basis of \$20.67 per fine ounce. Corrected for premium and unrecorded items, exports in 1934 were valued at \$105 million and imports at \$11 million.
2. To this must be added \$3,997,992 exports of gold contained in concentrates appearing in the item, "Exports of gold bearing quartz, dust, nuggets and (crude) bullion obtained direct from mining operations."





### Freight Payments and Receipts

Many countries value their imports and exports on a C.I.F. basis, i.e., the value of the goods at the point of entry into (or export from) the country, which value will include the cost of freight and insurance, etc., to the national boundary. In these cases the problem of estimating the freight payments and receipts made to (or received from) foreign countries does not arise in quite the same form as with Canada since such expenses are included in the recorded valuations of foreign trade. Canada, however, values its imports at their fair market value in the country whence exported at the point of original shipment to Canada. The freight charges paid on imports from this point of original shipment to a Canadian port or boundary point are not included in the Customs Import Valuations and must be estimated for inclusion as one of the "invisible" items in the balance of international transactions. Similarly, in the case of exports, Canada does not value these f.o.b. boundary (or port) but at the point of original shipment, so that freight from this point of origin by rail to the boundary (or port) must also be estimated.

These calculations of freight payments have a value quite apart from the use to which they are put in the balance of international payments.

1. They provide a more accurate picture of the real values of exports and imports, which the present recorded values do not give. Thus, Canadian imports are higher by the amount of freight paid thereon to United States railroads and to British and foreign vessels which carry the goods to our ports and boundaries. These expenses are included in the real purchasing price. For the same reason, Canadian exports are higher by the amount of freight earned by Canadian railroads and lake steamers, etc., which carry the goods from the point of origin to the boundary or ports, and by the revenues earned by Canadian vessels carrying exports across the ocean.

Actually, the addition of the estimated freight costs to the recorded values indicates that Canada's imports are undervalued to a greater extent than her exports.



2. The estimates of freight received and paid may be applied to individual commodities with very illuminating results. For example, the recorded value of some 17 million tons of coal imported from the United States in 1930 was approximately 47 million dollars. This figure represents the price at the mine or point of original shipment. If we add to this the cost of freight to the Canadian boundary, an expense ultimately paid by the Canadian importer, the value of coal imported is increased to 74 million dollars.

3. Finally, the estimates of "invisible" freight imports and exports can be used to convert Canadian trade figures to a c.i.f. basis for more accurate comparison with the trade returns of other countries. If this were done, the total trade of Canada would be represented as somewhat greater than the present figures show. Without this adjustment there frequently appear discrepancies between the trade statistics of different countries relating to the same inter-area trade, i.e., between Canada and other countries.

Description of Method of Calculation of Freight  
Payments and Receipts

Freight payments and receipts, so far as Canada is concerned, fall into the following categories:

Freight Payments made by Canada

(a) Freight earned by United States railroads carrying export goods to the Canadian boundary. This item is easily the most important of the "invisible" freight calculations, by reason of the large percentage of Canada's imports which originate in the United States.

(b) Freight earned by British and foreign vessels carrying Canadian imports from overseas.

(c) Ocean freight paid on imports coming into Canada via the United States. Railroad freight expenses in the United States on these imports are, of course, already included under (a).

These three constitute the "payments" or debit items.

Freight Receipts By Canada are as Follows:

(a) Freight earned by Canadian railroads, etc., carrying exports to the ports or boundary.

(b) Freight earned by Canadian vessels carrying exports overseas.





(c) Freight earned by Canadian railroads on the transit traffic, i.e., that which is received from and delivered to foreign connections. For example, the Canadian National Railway moves several million tons of American commodities in bond from the St. Clair River points through Ontario to Buffalo or Montreal. The earnings on this traffic constitute an invisible freight receipt (export) and, while not analogous with the other categories listed above, it is convenient to include it under this section of the balance of payments. The methods of estimating the magnitude of freight payments follow:

Freight Paid to United States Railroads on Imports from the United States

The Annual Summary of Monthly Traffic Reports issued by the Bureau of Statistics lists the "tonnage of revenue freight received from foreign connections destined to Canadian points" (16,757,912 tons in 1930). This total, however, refers only to revenue freight and will not include the considerable quantity of coal and some less important commodities which the Canadian railroads import for their own use from the United States.

In addition, it appears that some of the coal imported into Canada is purchased from American exporters at or near the border at a price which necessarily includes freight to that point. The recorded Canadian import value will, therefore, include the freight expense. For these reasons a separate calculation is made in respect of the freight paid on coal imports not already included in the import price.

The assumption is now made that the tonnage of non-coal revenue freight received from foreign connections represents the total imports via land from the United States. This is not strictly true. Some overseas imports at the Atlantic and St. Lawrence ports, etc., are included, but the proportion is sufficiently small to be neglected (say 5 per cent). The next step is to compute a weighted average freight rate to be applied to the tonnage of non-coal imports from the United States in order to arrive at the freight costs. This method of estimate is more likely to yield satisfactory results than the more normal procedure of taking an estimated percentage of the value of imports as the probable cost of freight because of the fact that fluctuations in railway rates are less frequent than alterations of prices.





To compute an average freight rate, therefore, a calculation has been made from figures relating to freight earned by all United States railroads on different commodities, published by the Inter-State Commerce Commission, relating to 1929. Thus, by dividing the "tonnage of revenue freight originated" into the freight revenue--for each of the more important commodities entering into the Canadian import trade--we arrive at a freight earned per ton for the "average haul." The rates so obtained apply to 80 per cent of the non-coal freight actually imported into Canada from United States by rail in 1929. The weighted average was \$5.48 per ton and may be applied to the total tonnage imported if we assume that the "average haul" for each commodity on the United States railroads corresponds to the average haul for that commodity to the Canadian boundary--which cannot be far wrong.

This average rate has been adjusted downwards to make allowance for several corrections.

1. Import tonnage from United States as recorded above is too high by reason of the inclusion of some ocean imports already referred to.

2. Some Canadian imports from United States are bought from wholesalers at lake ports or boundary points at a price which includes freight.

In order to make allowance for these facts, the average rate per ton is arbitrarily reduced to \$5 and may be adjusted in future years in line with general alterations in freight rates. Freight paid on 7,980,087 tons of non-coal imports in 1930 is, therefore, estimated at \$39,900,000.

#### Freight Paid on Coal Imported from United States

It is impossible to apply the same method to the calculation of coal freight because:

1. The railways import coal for their own use, the figures for which are not recorded in the same return.

2. Some imports of coal may be recorded at a price which includes freight, as when purchased through a wholesaler at, say, Cleveland or Buffalo. It would, therefore, be inaccurate to consider all United States coal imported as coming direct from the mines and valued on that



basis in the Canadian import returns. An alternative method of estimating the freight (not already included in the import price) so paid is to consider it as represented by the difference between: (a) The United States value of coal exported to Canada, which is the value at the boundary or ports and, therefore, includes freight, and (b) The Canadian recorded value of coal imported from the United States, which is the value at the mine or at the point of original shipment in the United States which may, of course, be a boundary point or lake port.

This method<sup>x</sup> of estimate takes advantage of the differences in the method of valuation adopted by the two countries and avoids the statistical difficulty mentioned above. Using the methods described, the estimate for freight paid to United States railways is derived as follows:

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<sup>x</sup> The validity of this method of estimating coal freight payments is open to some question. It appears from the table that the ratio of freight to value has varied from 1/3 to 1/10 between 1926 and 1934 for anthracite and from 108% to 150% in the case of bituminous. The item is being subjected to further study.





COAL

(In thousands of dollars)

	1926	1927	1928	1929	1930	1931	1932	1933	1934
<b><u>Anthracite:</u></b>									
Exported from U.S.A. --									
U.S. Values in U.S. funds .....	40,273	32,130	32,277	32,569	24,075	17,062	12,045	8,978	11,082
U.S. Values in Canadian funds .....	-	-	-	-	-	-	13,681	9,800	10,973
Imported from U.S.A. (Canadian values) .....	29,989	24,130	23,299	22,899	21,164	16,065	12,232	9,430	10,565
Difference--being freight paid .....	10,284	8,000	8,978	9,670	2,911	997	1,449	370	408
<b><u>Bituminous:</u></b>									
Exported from U.S.A. --									
U.S. Values in U.S. funds .....	52,202	55,620	50,128	54,217	49,982	37,624	28,271	27,701	40,382
U.S. Values in Canadian funds .....	-	-	-	-	-	-	32,109	30,238	39,985
Imported from U.S.A. (Canadian values) .....	25,443	29,004	24,885	25,882	25,363	14,973	11,258	9,680	15,752
Difference--being freight paid .....	26,759	26,616	25,243	28,335	24,619	22,651	20,851	20,558	24,233
Total freight paid to U.S.A. on anthracite and Bituminous .....	37,043	34,616	34,221	38,005	27,530	23,648	22,300	20,928	24,641

NON-COAL FREIGHT

(In thousands of tons) --									
Total--Revenue freight received from foreign connections destined for Canadian points' ...	18,466	17,229	18,365	20,465	16,758	11,883	8,513	7,454	8,656
Total coal .....	10,885	9,382	8,955	9,916	8,778	6,638	5,185	4,497	5,000
Total of non-coal .....	7,581	7,847	9,410	10,549	7,980	5,245	3,328	2,957	3,656
(In thousands of dollars) --									
Freight paid on non-coal imports from U.S. at \$5 per ton .....	37,907	39,234	47,050	52,747	39,900	26,225	16,640	14,786	18,282
Estimate freight paid to U.S. railroads, coal and non-coal imports .....	74,950	73,850	81,271	90,752	67,430	49,873	38,940	35,714	42,923





Ocean Freight Paid to British and Foreign Vessels Carrying Imports to Canada

Imports into Canada from overseas are valued in the Canadian customs returns on the same basis as exports, viz., at the point of origin abroad. If carried in British or foreign vessels, the freight so earned (less deduction for expenses in Canadian ports) constitutes an invisible import.

Method of Estimate<sup>X</sup>.--Tonnage or freight entered and cleared in British, foreign and Canadian vessels is shown by fiscal years in the Annual Shipping Report. These form the starting point for the estimate of ocean freight receipts and payments. Further steps in making the estimate are as follows:

1. A rate per ton is calculated for exports and imports. As a result of a special inquiry addressed to various shipping companies, weighted average freight rates were struck for the year 1928, that for import trade being \$9.65 per ton and for exports \$7.07 per ton. These rates have been adjusted for other years according to the Economist index number of freight rates.

<u>Year</u>	<u>Index No.</u>	<u>Import</u>	<u>Export</u>
1926 .....	109.7	\$10.71	\$ 7.85
1927 .....	109.7	10.70	7.85
1928 .....	98.8	9.65	7.07
1929 .....	96.8	9.45	6.93
1930 .....	79.4	7.75	5.69
1931 .....	79.6	7.77	5.70
1932 .....	75.4	7.36	5.40
1933 .....	72.6	7.09	5.20

The difference between the import and export rates is explained by the different nature of the traffic. Canadian exports are predominantly of a nature to command lower freight rates. For example, wheat is easily handled and is good ballast. Imports are predominantly more or less manufactured goods which must be carefully handled and which have high value in relation to bulk. It is important to make separate rates

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<sup>X</sup> A common method of estimate is to determine the percentage which the freight expense bears to the value of goods carried by vessels of a number of sampled firms in any one year. This method is unsuited to Canadian purposes since "values" imported in British, Canadian and foreign vessels are not recorded. In any case, the use of this method is very dubious in view of the difficulty of making adjustments in the basic percentage to provide for: (1) Changes in the value of imported and exported goods--the basic percentage alters inversely; (2) Alterations in ocean freight rates--the basic percentage varies directly.



for imports and exports for the balance of payments freight item because the proportion of tonnage carried in Canadian vessels appears to be greater in respect of exports where the freight rates are lower. British and foreign vessels carry most of the imports.

2. A correction must be made in the tonnages because of the fact that certain Canadian vessels are under British registry and tonnage carried by these is classed in the Shipping Report as carried in British vessels. The most important of these Canadian vessels are the Canadian Pacific liners, most of whose vessels are in this sense "British."

The tonnage of freight carried by ships in this category must be dealt with as follows:

(a) When carrying imports, the tonnage of freight must be deducted from the total described as "entered in British and foreign vessels."

(b) When carrying exports, the tonnage of freight must be added to the total shown as carried in Canadian vessels.

As a result of a special inquiry made among Canadian corporations with shipping fleets, it was estimated that the inward freight tonnage carried in British vessels must be reduced by 10 per cent to offset the inclusion of Canadian-owned vessels in the statistics. The tonnage of exports shown as carried in Canadian-owned vessels must be increased by 40 per cent to allow for Canadian vessels recorded as British.

3. When the gross freight values have been ascertained, a deduction of  $33 \frac{1}{3}$  per cent must be made from payments due British and foreign vessels for port expenditures in Canadian waters. This percentage was arrived at as a result of a detailed study made for the year 1925. Statistics of the principal ports were examined, the actual harbour and pilotage dues paid in each port being estimated for all non-Canadian shipping. Loading and unloading expense was taken at twenty-five cents a ton cargo; brokerage and commissions at five cents a ton net register; and expenditure by crews at one dollar a head. The final result proved to be 35 per cent of the estimated freight earnings for Canadian cargo of British and foreign ships in 1925.





4. No adjustment is made to convert fiscal years shown in the Shipping Report to calendar years for the balance of payments since the error appears to be small.

5. On the basis of the above method, freight payments by Canada to British and foreign vessels for the years 1926-1934 were as follows:

(In thousands of dollars)

1926 .....	28,739	1931 .....	23,795
1927 .....	33,116	1932 .....	23,554
1928 .....	32,167	1933 .....	26,224
1929 .....	38,213	1934 .....	31,311 (est.)
1930 .....	30,037		

6. For certain purposes these payments are divided into those to: (a) Great Britain, (b) United States, (c) Other countries. The payment to Great Britain is calculated directly from the tonnage of freight entered inwards in British ships; deductions are made, of course, for freight carried in Canadian ships under British register. The payment to the United States and other countries is calculated directly from the tonnage of freight entered inwards in foreign ships. The division of payment between the United States and other foreign countries is made roughly by applying the ratio of their shipping tonnage entered inwards, which is shown in Table 13 of the Shipping Report. This ratio is used in the absence of more satisfactory data. A factor which may tend to destroy its accuracy is the inclusion of the tonnage of ships entered inwards in ballast with the tonnage of vessels shown by nationality in the Shipping Reports.

#### Freight Receipts Earned by Canadian Vessels

This item is estimated on the same basis as that just described for payments to British and foreign vessels, the figure for export tonnage carried in Canadian vessels being increased by 40 per cent to include Canadian vessels which would be recorded as "British."

#### Receipts from 1926 to 1934 (In Thousands of Dollars)

1926 .....	15,580	1931 .....	4,541
1927 .....	12,684	1932 .....	3,489
1928 .....	12,096	1933 .....	4,713
1929 .....	9,311	1934 .....	5,609 (est.)
1930 .....	5,774		



Method of Dividing the Receipts from Great Britain, United States and Other Countries

In addition to showing the total tonnage of exports carried by Canadian vessels, the Shipping Reports show the tonnage carried to the countries to which the ships departed. The destination of the freight can be used as a means of determining approximately the sources of payment for the services of the Canadian vessels. But there is no indication of these sources of payment for the freight carried on Canadian ships of British registry (40 per cent of the tonnage carried on ships of Canadian registry). A large part of this is carried by the Canadian Pacific Steamships to Europe and the Orient. It is doubtful whether any freight is carried by the Canadian vessels of British registry to the United States. Consequently, the percentages of freight carried to the various countries in ships of Canadian registry cannot be applied to that carried on Canadian ships of British registry. The latter freight is probably divided almost entirely between Great Britain and other countries, whereas of the former approximately one-half is carried to the United States.

Accordingly, the following method of determining the sources of payment of the earnings of Canadian vessels carrying ocean freight is employed.

The total of estimated receipts for this service is divided into:

(a) The receipts earned by Canadian ships of Canadian registry (five-sevenths of total).

(b) The receipts earned by Canadian ships of British registry (two-sevenths of total).

(a) is divided by the percentages of freight carried in ships of Canadian registry to Great Britain, the United States and other countries.

(b) is divided in the same ratio as the merchandise exports to Great Britain and other countries (exclusive of United States).

Ocean Freight Payments made by Canada on Imports Via United States

Canadian trade returns show the value of imports other than of United States origin entering Canada via the United States. The freight paid on this relatively small volume of imports constitutes an invisible





import. The railway freight paid for transit across United States is included in the calculation of freight paid to United States railroads. An estimate must now be made of the ocean freight paid from point of origin to the United States port, the assumption being that these imports are carried in non-Canadian vessels.

The method formerly used was to estimate the tonnage of this trade, this figure being multiplied by the inward ocean freight rate for the particular year. To estimate the tonnage from the recorded statistics of the value of goods imported into Canada via United States, it has been necessary to make some rough calculation of the average value per ton of all ocean imports into Canada. The result varies from \$55 to \$62 for 1926-1929. The application of these values to imports via United States gives the tonnage required and this figure is multiplied by the freight rate to arrive at the total freight cost on these imports.

Several objections may be made to this method: Firstly, the statistics of imports via United States are on a fiscal year basis; and, secondly, the assumption that imports via United States are of a similar nature (in respect to bulk and value and, therefore, by inference to freight rates) to those entering Canada direct, may be invalid. In point of fact, the goods coming via United States are largely raw materials from South and Central America and the Far East and are probably worth less per ton than the manufactured goods coming direct to Canada from Europe, etc. A small amount of these imports comes from Mexico by rail.

The total amounts involved are so relatively small, however, that no adjustments have been made and it is believed that to estimate this freight payment as being equal to 15 per cent of the value of imports via the United States will be sufficiently accurate for future calculations.

Freight Paid on Imports Via United States  
(In Thousands of Dollars)

<u>Fiscal Year</u> <u>ending March</u>	<u>Imports from Overseas</u> <u>Via United States</u>	<u>Ocean</u> <u>Freight Paid</u>
1927 .....	\$ 12,761	\$ 2,174
1928 .....	12,118	1,995
1929 .....	11,043	1,890
1930 .....	9,850	1,478
1931 .....	8,958	1,344
1932 .....	4,960	744
1933 .....	3,065	460
1934 .....	3,627	544



Method of Dividing the Payments to Great Britain, United States and Other Countries

There is no indication of the nationality of the vessels used in the importation of merchandise other than of United States origin via the United States. In view of the small payments involved, particularly in recent years, the purely arbitrary plan has been adopted of allotting one-third to each of Great Britain, the United States and Other Countries. There can be no doubt that each of these supply some of the service.

Freight Receipts--Rail

Canadian exports are valued in the Trade Returns as at the point of original shipment in Canada. It is necessary, therefore, to calculate the freight earned by Canadian railways and vessels in transporting commodities to the boundary or ports of exit. There are, however, one or two exceptions to the general rule that exports are valued as at the point of origin. Some Canadian export commodities are sold f.o.b. destination and the customs valuation, therefore, includes freight to the point of destination. This is the practice, for example, in the flour and grain products trade, where the export value includes freight to the ports and sometimes to the foreign destination. In this latter case some allowance should be made for freight credited to Canada in the export valuations but actually earned by British and foreign vessels who carry part of the flour exports.

Caution must also be exercised in applying the term "point of original shipment." For example, grain shipped from Port Arthur and Fort William via Buffalo has Port Arthur or Fort William as the point of original shipment; but in the case of grain shipped from these ports to Montreal and afterwards exported, Montreal becomes the point of original shipment for customs purposes, the freight from head-of-lakes to Montreal being included in the values shown in the invoices from which trade returns are compiled. In the first case, grain carried from Port Arthur in Canadian ships to Buffalo earns inland freight which is not included in customs figures, and, in the second case, the inland freight to Montreal is already included in the customs valuation of exports. Freight receipts for grains and flour and other milled products must, therefore, be treated separately from the main calculation.





With the above principles for guidance, the following methods were adopted to estimate receipts not already included in customs valuations:

Freight Earned by Canadian Railroads Carrying Canadian Exports (Exclusive of grain, flour and milled products)

The Summary of Monthly Traffic Reports compiled by the Bureau shows: (a) The volume of railway freight delivered to foreign connections (ports of exit or boundary points); and, (b) Railway freight received from foreign connections destined for foreign points (this is the in-transit traffic which also brings revenue into Canada, the estimate of which must again be a matter of separate calculation for the reasons explained below).

The actual Canadian export traffic handled by rail is shown by the difference between (a) and (b).

The figures for wheat and grains, flour and other milled products must be abstracted from these figures, being the subject of a special calculation. For the remaining tonnage of Canadian exports, it is assumed that the freight paid thereon from the point of original shipment to the port or boundary is not included in the respective export valuation. Extensive inquiries amongst exporters of wood, wood-pulp, newsprint, logs, timber, paper, etc. (which general classification provided a large proportion of the total tonnage of direct export of Canadian goods) demonstrated conclusively that the invariable custom is to value the exports for customs purposes as at the point of original shipment which, in most cases, was the same thing as the f.o.b. mill value. The initial assumption, then, seems valid and is in accordance with the instructions issued by the Customs authorities.

The next step is to apply a flat rate per ton of freight to the figures of tonnage exported for each of the important commodity classes (excluding grains, flour, etc.). The Transportation Branch of the Bureau has selected for each of these commodities an export rate, being the through freight rate on the typical export haul for that commodity. The results obtained by this method are likely to be as accurate as is possible. Flat rates per ton do not vary greatly for slightly longer or shorter hauls and export rates are generally lower than interprovincial rates, a factor which tends to invalidate the use of the ton-mile rates



# FREIGHT RECEIPTS--RAIL

	1926	1927	1928	1929	1930	1931	1932	1933	1934
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Total delivered to Foreign connections --tons .....	30,399,334	35,410,684	40,168,070	35,160,291	28,073,015	22,043,636	18,390,342	18,105,771	21,074,968
Received from foreign connections destined to foreign points (in-transit traffic)--tons	15,201,374	16,131,481	16,826,459	17,005,200	13,103,572	10,218,946	8,141,548	8,531,101	9,755,455
Total Canadian export Trade (A)--tons ....	15,197,960	19,279,203	23,341,611	18,155,091	14,969,443	11,824,690	10,248,794	9,574,670	11,319,513
Exports to be deducted from "A" : .									
(1) Canadian grains --tons .....	2,771,254	7,107,479	10,886,099	6,129,933	5,428,934	5,003,470	5,297,320	3,650,216	4,347,011
(2) Canadian flour and other milled products--tons	1,266,505	1,167,830	1,425,576	1,241,758	902,566	723,923	638,696	579,551	572,315
Total exports, Grain, flour & other milled products (B)--tons .	4,037,759	8,275,309	12,311,675	7,371,691	6,331,500	5,727,393	5,936,016	4,229,767	4,919,326
Difference (A) minus (B) = amount of Can. exports not specially accounted for--tons.	11,160,201	11,003,894	11,029,936	10,783,400	8,637,943	6,097,297	4,312,778	5,344,903	6,400,187
Freight Receipts At average flat rate of \$4 per ton on export traffic--receipts	44,640,804	44,015,576	44,119,744	43,133,600	34,551,772	24,389,188	17,251,112	21,379,612	25,600,748





formerly adopted in this computation. Flat rates per ton are, therefore, selected and the calculation has been still further shortened and simplified by combining these export rates into a weighted average export freight rate which has been applied to the total tonnage of goods exported (excluding, of course, grains and flour). This average worked out to approximately \$4 per ton for 1928-1929; in view of the slight changes in railway rates during the period, this figure is adopted for each year.

Method Dividing the Receipts from Great Britain, United States and Other Countries

The Summary of Monthly Traffic Reports does not divide the freight delivered to foreign connections into that exported by sea from that exported across the Canadian-United States boundary. In the absence of more precise data, the freight receipts are divided roughly on the same basis as the value of exports to Great Britain, United States and other countries. This assumes that the relations between freight rates, weight and value are approximately the same for the exports to these three destinations which may not be true.

Freight Receipts on Exports of Grain, Flour and Other Milled Products

Canadian shipping and railway companies earn large sums annually for the carriage of export grain, but by far the greater proportion of these earnings are included in the recorded value of exports as already explained. It is only necessary, therefore, to take account of the invisible portion so far as the balance of international payments statement is concerned. The following is a list of customs ports of exit showing the geographical location of the point of original shipment for grains for purposes of export valuation in the trade returns.

<u>Customs Port of Exit</u>	<u>Point of Original Shipment</u>
Montreal	Montreal
Quebec	Quebec
St. John, N.B.	St. John, N.B.
Halifax, N.S.	Halifax, N.S.
Vancouver, B.C.	Vancouver, B.C.
Prince Rupert, B.C.	Prince Rupert, B.C.
Coaticook, Que. )	Mostly Fort William and Port Arthur <sup>x</sup>
Sherbrooke, Que. )	
St. John, Que. )	
Welland )	Georgian Bay ports
Niagara Falls )	
Bridgeburg )	
Prescott )	
Cornwall )	

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<sup>x</sup> Negligible now--practically all grain to these ports of exit is shipped from Georgian Bay ports.



Working on the basis of the foregoing table, and taking into account the various routes and methods by which the grain traffic is moved, the "invisible" items in inland freight payments and receipts for grain are calculated as explained in the following brier notes:

Freight Earned by Canadian Carriers

1. United States grain in bond from Port Colborne to Montreal. Quantities obtained from Grain Trade Report. Rates from Transportation Branch, D.B.S.

2. United States grain in bond from Georgian Bay ports by rail to Montreal, American Seaboard, Canadian Seaboard, etc. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

3. Canadian grain from Georgian Bay ports by rail to border points. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

4. Canadian grain carried in Canadian ships from Fort William and Port Arthur to Buffalo. Quantities and rates from Transportation Branch, D.B.S.

5. Canadian grain from Fort William and Port Arthur by rail to Coaticook, etc. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.<sup>x</sup>

6. United States grain in transit. This in-transit grain is included in the general in-transit estimate especially compiled and is neglected here to avoid duplication.

Payments to United States

7. Grain shipped from Fort William and Port Arthur to Canadian ports in United States vessels. Grain Trade Report.

8. Transshipments of Canadian grain from Buffalo to Montreal in United States vessels. Transportation Branch.

That is to say, the quantities shipped by the various routes for the crop years are abstracted from the Report on the Grain Trade of Canada and placed on a calendar year basis and in some cases converted from bushels into units of 100 lbs. to which the rates are applicable. Average lake freight rates on wheat are obtained from the Grain Trade Reports and applied to the related shipments; rail freight rates are obtained from the Transportation Branch. For the sake of convenience,

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<sup>x</sup> Negligible now--practically all grain to these ports of exit is shipped from Georgian Bay ports.





the net "credit" for grain freight is carried forward to the Summary.

The estimates for grain work out as follows: *See table on page 20*

Sources of Receipts from the Transportation of Grain Exports in Canada  
(Exclusive of Transportation Charges included in the Value of Exports)

1. Canada received the freight charges for this service from the United States, although the United States shipper will be reimbursed later by the foreign importer if the grain is exported from Montreal.

2. This receipt is from the United States. If any of the grain is exported overseas, the United States shipper will be later reimbursed as in Section 1.

3, 4 & 5. The receipts for the transportation of grain in these three sections are added together and divided roughly in the same proportions as the total grain exports to Great Britain, the United States and other countries.

Payments to the United States for the Transportation of Canadian Grain  
in United States Vessels

7 & 8. The Canadian shippers pay the owners of the United States vessels, although they will ultimately be reimbursed by an amount included in the valuation of the grain exported from Montreal and paid for by the foreign importers if the grain was exported. If it was diverted into Canadian consumption, the invisible import recorded from the United States still covers the transaction.

Freight Receipts from In-Transit Traffic

The Summary of Monthly Traffic Reports compiled by the Bureau of Statistics shows, inter alia, the volume of "freight received from foreign connections destined for foreign points." This is the in-transit traffic on which Canada can be said to earn "invisible" receipts which must be included in the balance of international transactions. This movement of goods in transit across Canada is particularly heavy on the lines running across South-western Ontario between Detroit and Buffalo and on the Canadian section of the line running between Chicago, Montreal and the New England States.

The largest part of the Ontario traffic (75 per cent approximately) consists of American traffic passing over American-owned or leased lines; over the Michigan Central, the Wabash Railroad and the Pere Marquette. This does not mean, however, that Canada should not be



credited with some freight receipts from the traffic. The operating expenses of the line are incurred and disbursed in Canada; the receipts come largely from American shippers. This, then, is clearly an "international" transaction.

It is necessary, therefore, to make separate calculations in order to arrive at:

(a) Freight receipts by Canada arising from in-transit traffic on American-owned or leased lines in Ontario.

(b) Freight receipts by Canada arising from in-transit traffic on purely Canadian lines in all other provinces and on the Canadian National line in Southern Ontario.

Receipts from in-transit traffic are calculated separately for each province in accordance with the form of the Traffic Report Statistics. The details given below are for 1929 and indicate the nature of the primary data on which the estimates are made.

1. In-Transit Traffic -

New Brunswick .....	475,194 tons
Quebec .....	2,379,078 "
British Columbia .....	301,600 "
Other provinces (negligible) .....	21,081 "
TOTAL .....	3,176,953 tons

2. In-Transit Traffic -

Ontario .....	13,828,247 "
	17,005,200 tons

The tonnage carried under Section 1 (all provinces except Ontario) was carried very largely on Canadian-owned lines and is described briefly as follows:

New Brunswick.--Goods received from points on the Maine - New Brunswick frontier and carried back into Maine further south or possibly exported via St. John. It will also include traffic received from the New Brunswick ports ("foreign points") destined to points in Maine or elsewhere at a through rate. In any case the haul is relatively short and the freight rate to be adopted is arbitrarily placed at \$1.00 per ton.

Quebec.--A movement of traffic from the Chicago region across Quebec in bond and back into United States to Portland, Maine, whence





GRAIN FREIGHT

	1926	1927	1928	1929	1930	1931	1932	1933	1934
<u>Grain Freight Receipts</u>	\$	\$	\$	\$	\$	\$	\$	\$	\$
1. U.S. Grain from Pt. Colborne to Montreal by water .....	943,594	2,015,948	1,908,647	554,118	427,813	316,550	106,330	-	-
2. U.S. Grain Georgian Bay Ports by rail .....	1,701,796	3,601,445	2,728,080	2,148,988	1,244,612	759,510	704,935	667,526	411,000
3. Georgian Bay Ports by rail	876,826	543,837	648,384	462,253	436,760	382,568	285,004	156,904	581,512
4. Shipments from Port Arthur to Buffalo in Canadian vessels .....	980,966	896,122	1,166,948	248,091	274,059	157,187	12,345	216,293	395,889
5. Fort William and Port Arthur via Coaticook, etc., by rail .....	1,485,000	661,610	1,084,050	422,965	195,337	391,887	167,266	71,466	278,815
	5,988,182	7,718,962	7,536,109	3,836,415	2,578,581	2,007,702	1,275,880	1,112,189	1,667,216
<u>Grain Freight Payments</u>									
7. Grain shipped from Port Arthur to Canadian Ports in U.S. vessels .....	90,000	120,000	240,000	100,000	-	-	-	-	-
8. Transshipments Buffalo to Montreal .....	1,005,002	2,772,749	3,645,704	1,040,667	1,115,427	473,159	631,375	207,567	69,304
	1,095,002	2,892,749	3,885,704	1,140,667	1,115,427	473,159	631,375	207,567	69,304
<u>Net Grain Freight Receipts by Canada .....</u>	4,893,180	4,826,213	3,650,405	2,695,748	1,463,154	1,534,543	644,505	904,622	1,597,912



exported. The traffic is largely wood pulp and paper and anthracite coal. There is a reverse movement--imports via Maine and Quebec to the American Middle West. Again, for a relatively short haul across the province, the freight rate is arbitrarily placed at \$1.00 per ton.

British Columbia.--Goods coming from the Far East via Vancouver transhipped in bond to Chicago and Eastern American points. For example, silk from Japan and China, etc., destined for Central and Eastern points in the United States is shipped in special fast freight trains and pays a high rate, equivalent to passenger tariffs, of approximately \$9.00 per cwt.<sup>x</sup> The actual details of this commodity traffic (not shown separately in Canadian import statistics) can be obtained from the Foreign Commerce and Navigation reports of the United States by referring to imports at the ports of entry under the three regions, St. Lawrence, Buffalo and Chicago. For 1928 the imports into United States of this in-transit traffic were:

		<u>St. Lawrence Ports</u>	<u>Buffalo Ports</u>	<u>Chicago Ports</u>
Raw Silk .....	lbs.	10,296,466	6,913,234	192
Silk Waste ....	lbs.	<u>467,573</u>	<u>4,988</u>	<u>-</u>
TOTAL .....	lbs.	<u>10,764,039</u>	<u>6,918,222</u>	<u>192</u>

Total revenues to Canadian railways at \$9.00 per cwt. would then be in the neighbourhood of \$1,600,000. For the whole of this long-distance in-transit traffic an arbitrary estimate of \$10.00 per ton has seemed reasonable.

Ontario.--The Traffic Reports show in-transit traffic of 13,828,247 tons for 1929. Of this it appears that the C.P.R. and C.N.R. carry approximately 4,435,000 tons. The rest of the traffic was carried by American-owned or leased lines, principally by: (a) Wabash Railway, (b) Pere Marquette, (c) Canada Southern or Michigan Central. These American lines have running rights and leases on the Canadian National, but, since the revenues received from American shippers are almost entirely spent in Canada in the form of operating expenses, we are justified in including these earnings in the general category of Canadian freight receipts from in-transit traffic.

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<sup>x</sup> More recently a special rate of \$4.00 per cwt. has been in force.





As a basis for our estimate, we use, therefore, the statistics published in the Traffic Report relating to the total operating expenses of United States lines in Canada, from which we have abstracted those dealing with the three lines referred to (which together constitutes 90 per cent of the total of such expenses). Details are shown overleaf.

A deduction must be made from this total to allow for freight receipts derived from traffic originating in Canada, which is not in-transit traffic, and, therefore, does not merit inclusion as a receipt chargeable to foreigners.

Analysis of the reports dealing with freight carried by American-leased railways in Canada shows that over the years 1926-1928 approximately 70 per cent of the traffic originated in the United States. That proportion, then, of the total operating expenses is appropriated as a freight receipt by Canada.

#### Transit Traffic on the C.N.R. and C.P.R. in Ontario

The in-transit traffic of the C.N.R. and C.P.R. in Ontario chiefly consists of commodities moving in bond from Chicago and the West generally to Detroit and Sarnia, thence through Ontario to Buffalo or through to Montreal for shipment abroad. These commodities include mainly grains, flour, fruits and vegetables, dressed meats and packing house products, anthracite, ores and timber (see Traffic Report--Ontario Section). The average length of haul is about 300 miles. The average earnings of all Canadian railways on revenue freight in 1929 was 1.09 cents per ton mile or, say, approximately \$3.00 per ton for this particular haul. This flat rate is, therefore, applied to the tonnage carried. The accompanying tables show the details relating to the in-transit traffic and the estimates of receipts for inclusion in the balance of payments, computed by the methods referred to.



In-Transit Traffic

(Canadian and United States Leased Lines in Canada)

	1926	1929	1933	1934
(Tons)				
Nova Scotia .....	471	2,204	2,782	1,275
New Brunswick .....	275,738	475,194	214,697	217,040
Quebec .....	1,700,762	2,379,078	1,004,131	1,136,959
Ontario .....	12,894,410	13,828,247	7,215,323	8,277,800
Manitoba .....	960	401	-	208
Saskatchewan .....	14,713	18,475	5,453	11,881
British Columbia .....	314,320	301,601	88,715	110,292
Total tonnage .....	15,201,374	17,005,200	8,531,101	9,755,455
Portion carried by C.P.R. & C.N.R. in Ontario .....	3,459,000	4,435,000	2,358,000	2,562,000

Total Operating Expenses United States Lines in Canada

	\$	\$	\$	\$
Canada Southern .....	14,340,865	15,248,455	6,483,327	7,694,930
Pere Marquette .....	3,060,500	3,270,152	1,956,779	2,235,033
Wabash (in Canada) .....	5,203,016	5,812,423	2,780,034	3,015,444
(Other U.S. railways in Canada negligible)				
Total .....	22,604,381	24,331,030	11,220,140	12,945,407

Estimates of Receipts on In-transit Traffic

	\$	\$	\$	\$
New Brunswick (at \$1 per ton) ....	300,000	500,000	215,000	217,000
Quebec (at approximately \$1 per ton) .....	1,700,000	2,400,000	1,004,000	1,137,000
British Columbia (at approximately \$10 from 1926 to 1931 and \$6 in 1932, 1933 and 1934, per ton) .....	3,100,000	3,000,000	535,000	663,000
Ontario (carried by C.P.R. and C.N.R. at approximately \$3 per ton) .....	10,400,000	13,300,000	7,079,000	7,698,000
United States--leased lines in Canada (at 70 per cent of operating expenses) .....	15,800,000	17,000,000	7,854,000	8,922,000
Total estimated receipts from in- transit traffic .....	31,300,000	36,200,000	16,687,000	18,637,000





SUMMARY TABLE OF INVISIBLE FREIGHT RECEIPTS AND PAYMENTS, N.O.P.

(Thousands of Dollars)

	1 9 2 6				1 9 2 9				1 9 3 4			
	Total	Great Britain	U.S.A.	Other Countries	Total	Great Britain	U.S.A.	Other Countries	Total	Great Britain	U.S.A.	Other Countries
<b>Receipts</b>												
Inland freight receipts from non-grain exports .....	44,641	8,035	25,892	10,714	43,134	5,607	26,312	11,215	25,600	8,704	10,752	6,144
inland freight receipts from grain exports, net .....	4,893	2,373	1,651	869	2,696	669	1,596	431	1,598	816	631	151
inland freight receipts from in-transit traffic .....	31,300	-	31,300	-	36,200	-	36,200	-	18,637	-	18,637	-
Total rail receipts .....	80,834	10,408	58,843	11,583	82,030	6,276	64,108	11,646	45,835	9,520	30,020	6,295
earned by Canadian ships on exports .....	15,580	4,763	5,008	5,809	9,311	1,636	3,658	4,017	5,609	1,178	1,963	2,468
TOTAL .....	96,414	15,171	63,851	17,392	91,341	7,912	67,766	15,663	51,444	10,698	31,983	8,763
<b>Payments</b>												
To United States railways .....	74,950	-	74,950	-	90,752	-	90,752	-	42,923	-	42,923	-
To British and foreign ships ...	28,739	7,679	9,477	11,583	38,213	11,912	11,572	14,729	31,311	14,090	7,515	9,706
On Ocean imports via U.S.A. ....	2,174	725	725	724	1,478	493	493	492	654	218	218	218
TOTAL .....	105,863	8,404	85,152	12,307	130,443	12,405	102,817	15,221	74,888	14,308	50,656	9,924



Canadian Railroads Operating in the United States

The chief lines owned and operated by Canadian railway companies in the United States are:

1. New England
2. Central Vermont
3. Grand Trunk Western Lines
4. Duluth, Winnipeg and Pacific

Easily the most profitable of these lines is the G.T.W. which covers the most densely populated area of the State of Michigan (Chicago and Grand Haven to Sarnia). Commodities passing from Chicago district into Canada, and lake traffic unloaded at Grand Haven, traverse this route. The receipts on these lines earned in United States may be taken as expended in the United States, so that it is not necessary to estimate the value of this item for inclusion in the invisible freight receipts. It appears that the net receipts transferred to Canada are very small and are amply covered in our separate statement of interest receipts and payments. This case, of course, is not quite analogous with that of Canadian lines leased by American railways. The Canadian National own the United States lines outright and separate statistics are available. American railways in Canada are leased lines; the operating expenses incurred in Canada are paid largely by American shippers and it is neither correct nor practicable to include these receipts as "interest payments."

Suggestions for Improved Estimate of Freight Payments and Receipts:

1. No allowance is made at present for railway freight from point of origin to border in countries other than United States.
2. Since the nature of cargoes changes each year, it would be advisable, if possible, to secure annual data direct from shipping companies.

Tourist Traffic<sup>x</sup>

Canada's tourist trade is mainly concerned with the United States. The expenditures of tourists from that country are over 90 per cent of the total tourist revenue and Canadian tourist expenditures in

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<sup>x</sup> For further information see Annual Report on Tourist Trade.





the United States reach large figures.<sup>x</sup>

Tourists visiting Canada may be put in three classes:

- (a) Tourists from overseas countries.
- (b) Tourists coming by automobile from the United States.
- (c) Tourists from the United States by rail and steamer.

Method of Estimating Expenditures

(a) Tourists from Overseas Countries.--Statistics of non-immigrants entering Canada via ocean ports, as published by the Department of Immigration and Colonization, form the basis of this estimate. Non-immigrants include professionals, students, theatricals, members of the diplomatic corps and other transients as well as tourists in the narrower sense. In 1934 11,531 such tourists entered Canada as shown in the following table:

Non-Immigrant Arrivals by Ocean Ports, 1934

Class of Steamship Passage -

Saloon or First .....	3,114
Cabin .....	3,917
Other (tourist, third, etc.) ....	4,500
	<u>11,531</u>

An estimate of expenditure is made by allowing \$1,100 for those travelling saloon or first-class, \$850 for cabin class, and \$600 for other passengers. No direct information is available of the expenditures of this class of tourist. The rates used are based upon information collected from Canadian tourists travelling abroad but are placed at a somewhat higher level since the latter include many British or foreign born who are visiting relatives and whose expenditures would consequently be smaller. The rates are considerably lower than similar ones adopted in the United States and are probably conservative.

(b) Tourists from the United States by Automobile.--Automobiles entering Canada for touring purposes from the United States are entered at the customs ports and returns issued by the Department of National Revenue. These come in under three classes of permits, viz., (1) those not exceeding twenty-four hours,<sup>xx</sup> (2) those not exceeding sixty days,

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<sup>x</sup> While the number of United States tourists to Canada is much greater than the number of Canadian tourists to the United States in proportion to population, the Canadian movement to the United States is relatively heavier.

<sup>xx</sup> In 1935, changed to forty-eight hours.



and (3) those entering for a period not exceeding six months.

In view of the importance of this traffic, the United States Department of Commerce and the Dominion Bureau of Statistics have, since 1928, collaborated in an effort to obtain as reliable figures of expenditure as possible. In the summer of 1934, with the co-operation of the border officials of the Department of National Revenue, 8,000 postcard questionnaires were put in the hands of United States motorists who had visited Canada, together with instructions and a request to fill them in and mail them to the United States Department of Commerce. Similarly, 10,000 questionnaires were handed to Canadian motorists for return to the Dominion bureau of Statistics. In distributing the questionnaires, account was taken of the changes in the volume of tourist traffic in different months and also on different days of the week. The data from the returned questionnaires were compiled by the United States Department of Commerce and the Dominion Bureau of Statistics, the results being exchanged.

The average expenditure rates adopted as a result of the 1934 canvass were:

United States' tourist cars -

24 hour class .....	\$ 9.23
60 day class .....	72.32
6 month class .....	422.22

Canadian tourist cars ..... \$ 63.53

(c) Tourists from the United States by Rail and Steamer.---

Statistics obtained from the principal railway and steamship companies as to the number of passengers ticketed from the United States to Canadian points and vice versa were used as the basis of this estimate. The total number of passengers ticketed from the United States to Canada includes United States immigrants to Canada numbering in 1934 6,071; returning Canadians numbering 7,272; United States tourists to Canada and returning Canadian tourists. The numbers in the first two classes, known from the records of the Department of Immigration, were subtracted from the total, but, lacking direct data, an estimate was necessary of the division of the remainder into United States tourists to Canada and Canadian returning tourists. It was assumed that railway and steamship tourists in each country would be roughly in the same proportions as





automobile tourists, after allowance had been made for the difference in the ratio of population to passenger cars in the two countries. (In 1934 there was one passenger automobile to 10.4 persons in Canada and one to 6 persons in the United States.) The distribution was, therefore, made according to the ratio: 3,261,848 x 6 : 513,852 x 10.4. There may be a considerable margin of error in the resultant figures worked out on the basis of this assumed ratio, but no better basis of estimation is available at present.

The average expenditure rates applied to the numbers in this class are estimates based on the opinions of various tourist authorities canvassed a few years ago and increased or decreased in proportion to the increases or declines in the expenditures of motor tourists.

Beginning with June, 1935, the Department of Immigration has agreed to record tourists entering Canada by rail and steamer in a separate category and negotiations are under way to have the United States Department of Immigration record similarly Canadian entrants to the United States.

For the first time this year direct information as to expenditures, length of stay, etc., is being collected from tourists travelling by railway and steamship, the Canadian and United States Departments of Immigration each distributing 10,000 questionnaires to returning tourists in this class. The substitution of these direct records for the indirect methods of estimation described above will, it is thought, effect a very considerable improvement in the statistics of this tourist class.

#### Expenditures of Canadian Tourists Abroad

(a) Canadian Tourists to Overseas Countries.--Estimates for this class of Canadian tourist are based mainly on, (1) statistics of Canadians returning via ocean ports as recorded by the Department of Immigration, and (2) on questionnaire returns regarding expenditure made by passport applicants.

Questionnaires on expenditure were sent out in 1933 and the same data used for 1934. These were as follows:

Expenditure of	saloon passengers	\$1,002
"	" cabin	674
"	" other	400



As Canadian overseas tourists include many British born or visits to relatives resulting in lower expenses, the average expenditure is lower than in the case of overseas tourists visiting Canada.

(b) Canadian Tourists to the United States by Automobile.--Department of National Revenue records of motor cars leaving Canada, together with questionnaire data on expenditures previously described, form the basis of this estimate.

(c) Canadian Tourists to the United States by Rail and Steamer.--The method for this item is similar to that described for "Tourists entering Canada from the United States by Rail and Steamer."

Receipts and Payments from the Tourist Trade

	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
1926 .....	201,167,000	98,747,000	102,420,000
1927 .....	238,477,000	108,750,000	129,727,000
1928 .....	275,230,000	107,522,000	167,708,000
1929 .....	309,379,000	121,645,000	187,734,000
1930 .....	279,238,000	100,389,000	178,849,000
1931 .....	250,776,000	76,452,000	174,324,000
1932 .....	212,448,000	57,403,000	155,045,000
1933 .....	117,124,000	50,860,000	66,264,000
1934 .....	129,974,000	60,905,000	69,069,000

Receipts and Payments of Interest and Dividends

In view of the investment of over \$6,000 million in Canada by Great Britain, United States and other countries, there are necessarily proportionally heavy interest obligations and dividend payments abroad. Canada's investments in other countries bring a smaller flow into the Dominion. It was estimated that in 1934 our interest and dividend payments totalled \$293 million while receipts were \$98 million.

Method of Estimating Interest and Dividend Payments

Dividend Payments.--Total dividends paid by Canadian corporations are reported each year to the Income Tax Branch of the Department of National Revenue. The amount paid outside Canada is shown separately and is utilized for the balance of payments estimate. It is not complete, however, and supplementary data must be secured. Certain Canadian corporations have common shares outstanding which carry bearer coupons. Only a small portion of such shares are registered. Consequently, destination of a large portion of the dividends cannot be reported to the Income Tax Branch. An estimate has to be made in the





Bureau of proportion of coupons paid abroad. This is based on estimates of the geographical distribution of ownership of the common stock of the firms concerned.

It is believed that the above method furnishes an unusually good estimate of dividend payments, but, since there are certain complicating factors in connection with income tax data, a check-up is now being conducted by the Bureau. Every firm in the Dominion which has any or all of its shares owned outside Canada is being asked to fill in a dividend return for the current year. A further problem in connection with dividend or kindred remittances abroad by firms in Canada will be discussed later under the heading of "Further Problems for Investigation."

Interest Payments.--Since a record is kept in the Bureau of all bonds which were taken in whole or in part abroad at the time of their original distribution, the amount of interest paid abroad is calculated on the basis of this record. Special inquiries have been instituted to cover defaults in interest payments which have taken place in the recent depression years.

Since the estimate of interest payments is based on the estimate of the foreign holdings of Canadian bonds, the accuracy of the former is dependent upon that of the latter. One influence affecting this accuracy is the fact that the geographical distribution of ownership of the bonds is the original distribution. No correction has been made for international sales and purchases in the intervening years. This problem will be discussed later under the heading "Further Problems for Investigation."

#### Method of Estimating Interest and Dividend Receipts

Estimates of interest and dividend receipts on the various groups of investments which Canada owns abroad can best be explained by discussing each group separately.

1. Canadian Government Loans and Balances Abroad.--Interest receipts on this item appear in the public accounts.

2. Net Assets of Canadian Banks Abroad.--It may be argued that profits which are earned by branches of Canadian banks abroad should not appear in the balance of payments statement because they



will doubtless be kept abroad. However, since any increase in the net assets of Canadian banks abroad will appear as an export of Canadian capital, a contra amount must appear in the item for interest and dividend receipts.

In order to preserve a uniform method of calculating interest received on foreign investments, it is necessary to apply an average rate to the net foreign assets abroad. Separate rates are first estimated for, (a) non-Canadian securities held by the banks, and (b) for all other assets.

Investigation has shown that the rate on (b) approximates that of the call loan renewal rate in New York. For non-Canadian securities held by the banks, the same rate as that applied to insurance investments abroad is used.

3. Investments of Insurance Companies Held Abroad, and  
4. Foreign Securities Held in Canada by Insurance Companies.--In connection with (3) the same point arises as with banks. Any increase in the foreign investment of insurance companies abroad will be shown as an export of capital. If profits are returned abroad, they would increase the investment and a contra item must appear among receipts of interest and dividends in the balance of payments statement.

The interest rate used for both (3) and (4) is the average rate earned by Canadian companies on their investments.

Since the method of estimating the amount that Canadian insurance companies have invested abroad is in question, the accuracy of interest receipts is involved with it. As stated previously, this whole subject is under investigation.

5. Canadian Direct Investments Abroad.--Only partial data are available as to the returns on Canadian direct investments abroad. In some cases the actual payments are known. With these as a starting point and by using other fragmentary information and considering the general trend of interest payments, a rate is estimated for this group. It is expected that more definite information will be forthcoming directly from firms with branches abroad in future.

6. Miscellaneous Investments.--The interest rate used for this group is only a rough estimate. Considerable information has yet to be obtained regarding the constituents which make up the total investment before a rate can be computed with approximate accuracy.





INTEREST AND DIVIDEND PAYMENTS ON BRITISH AND FOREIGN  
INVESTMENTS IN CANADA, 1927 - 1933.

<u>TOTAL</u>	<u>INTEREST</u>	<u>DIVIDEND</u>	
1927 .....	155,119,905	111,538,142	266,658,047
1928 .....	162,305,369	120,511,132	282,816,501
1929 .....	166,541,181	163,549,218	330,090,399
1930 .....	174,159,829	182,209,542	356,369,371
1931 .....	181,341,924	155,081,316	336,423,240
1932 .....	173,255,557	135,811,107	309,066,664
1933 .....	168,807,685	109,962,151	278,769,836
<u>GREAT BRITAIN</u>			
1927 .....	67,351,699	41,269,112	108,620,811
1928 .....	66,568,551	38,563,562	105,132,113
1929 .....	66,762,848	52,335,750	119,098,598
1930 .....	65,463,019	54,662,863	120,125,882
1931 .....	64,048,451	43,422,768	107,471,219
1932 .....	63,499,022	36,668,999	100,168,021
1933 .....	61,588,533	29,689,781	91,278,314
<u>UNITED STATES</u>			
1927 .....	87,188,548	65,807,504	152,996,052
1928 .....	95,048,242	75,922,013	170,970,255
1929 .....	99,201,999	103,036,007	202,238,006
1930 .....	108,026,626	118,436,202	226,462,828
1931 .....	116,612,651	103,904,482	220,517,133
1932 .....	109,159,583	90,993,442	200,153,025
1933 .....	106,665,785	73,674,641	180,340,426
<u>OTHER COUNTRIES</u>			
1927 .....	579,658	4,461,526	5,041,184
1928 .....	688,576	6,025,557	6,714,133
1929 .....	576,334	8,177,461	8,753,795
1930 .....	670,184	9,110,477	9,780,661
1931 .....	680,822	7,754,066	8,434,888
1932 .....	596,952	8,148,666	8,745,618
1933 .....	553,367	6,597,729	7,151,096



INTEREST AND DIVIDEND RECEIPTS ON CANADIAN INVESTMENTS ABROAD  
(1927-1933)

TOTAL

1927 .....	80,791,873
1928 .....	94,912,611
1929 .....	110,725,051
1930 .....	112,892,404
1931 .....	101,363,616
1932 .....	93,772,788
1933 .....	88,296,989

GREAT BRITAIN

1927 .....	4,984,487
1928 .....	5,631,024
1929 .....	6,540,817
1930 .....	6,868,085
1931 .....	5,671,503
1932 .....	5,146,400
1933 .....	5,022,424

UNITED STATES

1927 .....	47,930,710
1928 .....	58,755,509
1929 .....	66,538,969
1930 .....	65,086,147
1931 .....	58,435,774
1932 .....	55,002,367
1933 .....	50,755,477

OTHER COUNTRIES

1927 .....	27,876,676
1928 .....	30,526,076
1929 .....	37,645,266
1930 .....	40,938,171
1931 .....	37,256,339
1932 .....	33,624,021
1933 .....	32,519,089





Insurance Receipts and Payments

(Calculated by Old Method)

(In Millions of Dollars)

	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
1927 ....	19.2	29.5	-10.3
1928 ....	35.8	28.8	+ 7.0
1929 ....	32.0	24.4	+ 7.6
1930 ....	29.5	22.1	+ 7.4
1931 ....	27.5	12.1	+15.4
1932 ....	-14.6	- 2.4	-12.2
1933 ....	- 9.4	12.6	-22.0
1934 ....			-15.0 <sup>x</sup>

<sup>x</sup> Preliminary

Insurance Companies and the Balance of Payments

Being large investors, insurance companies influence the balance of payments by their investments in foreign securities. But their influence is not confined to this. A more complicated situation arises when a company establishes a branch in a foreign country. The estimation of the influence upon the balance of international payments set up by the activities of such branches and their relations with their head office presents numerous difficulties. There are two fundamentally different approaches to the problem. One of these treats an insurance company's branch as being closely analogous to the foreign branch or an industrial enterprise and, accordingly, attempts to estimate the "net earnings" using the resulting estimate as a balance of payments entry even though it is not transferred to the head office. The purpose of the other approach is the measurement of the actual annual gross international flow of funds, both inward and outward, which is the result of insurance transactions apart from that movement of funds which is caused by the investment of insurance companies in foreign securities, a movement more properly included in the capital items of the statement of international payments.

The method which has been employed by the Dominion Bureau of Statistics follows the first of these two approaches. It considers the problem as one in which Canadian insurance companies earn money abroad represented by the excess of foreign receipts over foreign disbursements (including taxes, expenses and commissions) which may be said to arise from the export of Canadian insurance "services." Likewise, there is an import of "services" arising out of the operations of British and foreign



insurance companies in Canada. The estimated earnings in the case of Canadian branches abroad are entered as credits in the insurance item of the balance of international payments statement, while those earned by British and foreign companies in Canada are entered as debits. Following is a description of how these estimates are made:

Earnings of Canadian Insurance Companies Operating Abroad

Life Insurance.--Acting upon the assumptions discussed above, the calculation of the net gain on the foreign operations of Canadian life companies is made from the following data available in the reports of the Superintendent of Insurance. The premium income and consideration for annuities received outside Canada is taken, and deducted from this are:

1. The total disbursements in respect of Death Claims, Surrender Values, Dividends to Policy Holders, Life Annuities, etc., and
2. The General Expenses. It is estimated that these are 25 per cent of the total premium income.

Fire Insurance.--For these companies the value of premiums received outside Canada is taken. Deducted from this are:

1. Losses paid outside Canada, and
2. General expenses and taxes (50 per cent of the premium income outside).

The residue represents the net gain of Canadian fire insurance companies abroad.

Casualty Insurance.--The total net gain of Canadian companies in this field has always been small and the foreign share of this may be considered as negligible.

Earnings of British and Foreign Insurance Companies in Canada

Life Insurance.--The net gain of British and foreign life companies derived from their business in Canada is computed by exactly the same method as for the Canadian companies abroad. From the income in Canada of British and foreign countries (including premiums, interest, dividends and rent) is deducted:

1. The income derived from interest, dividends and rent since allowance has already been made for this as a credit item as interest on





foreign investments in Canada, and

2. The disbursements of the companies in Canada, including taxes, general expenses, death claims, maturities, etc.

Fire Insurance.--The net gain is calculated by deducting from the premium income in Canada the losses, adjustment expenses, general expenses and taxes in Canada.

Casualty Insurance.--The net gain on this class of business was taken to be 10 per cent of the premiums received on the various forms of casualty insurance.

The theoretical explanation which has been given for this method is that even though these earnings may not be transferred they are potential credits which may be transferred, for example, from the Canadian branches in a period when the Canadian dollar is at a discount. It was considered that the possibility of this should be brought out in the balance of payments statement by treating this excess of net receipts abroad over disbursements as an invisible export involving an inflow of funds. A further reason used to justify the method is that, since, for instance, the increase in the investments of Canadian branches abroad must be shown in the balance of payments statement either directly or indirectly as an export of capital, then there should also be a compensating entry on the opposite side of the statement to show as a receipt the source of supply of the funds for this investment. This attitude links up the balance of payments statement with the annual estimation of the value of international investments and attempts to introduce the changes in each into the balance of payments by compensating entries in the balance of payments statement. It does not take cognizance of the fact that there are factors producing changes in international investments which do not enter into the actual annual international flow of capital which is measured in the balance of payments statement either directly by capital items or indirectly by a net capital movement. The question is whether an increase in the investments abroad of a branch by funds from the income abroad can be interpreted as a balance of payments entry at all. (For the sake of simplicity, the problem of the ownership of these assets which is discussed later is not introduced here.) To interpret the investments in this way is to assume



that a balance of payments statement must not be restricted to the inclusion of only the cash receipts and cash outgoings of a nation in respect to all transactions of a revenue character. It assumes that such a statement should also include all claims arising out of transactions of a revenue character even though these may never give rise to cash transfers. Such changes as the latter, when concerned with investments, belong to the estimates of international investments. It would appear that their real nature is being misinterpreted by including them in the annual capital movements shown in the balance of payments statement whether these are estimated directly or indirectly.

This method with its fictitious entries does not sufficiently regard the objective flow of funds. What was considered the necessity of including the earnings and annual investment of these branches in the balance of payments led to the introduction of fictitious entries which were concerned only with theoretical flows. A basic weakness in this method is the difficulty of determining what the earnings are and, in addition to this, whether such earnings were transferred or not. The relations between insurance companies in one country with their branches in another result in a movement of funds whenever occasion demands it and not in a single "net payment" once a year to settle the earnings on account of services across the boundary. Numerous unpredictable factors influence the decisions of the company to make these transfers, such as fluctuating exchange rates and exchange regulations, along with the numerous market situations that arise from time to time and influence investment policy. Such international transfers of funds, it can readily be seen, have little or no relationship with an estimation of the "net earnings" of the company abroad on account of its services. Even if such a "net earning" were an accurate estimate of the net situation during a year of business, it ignores the gross movements of funds, both inwards and outwards, that take place. It would throw no light on the quantitative importance of insurance transactions in the nation's international accounts. The real movement of funds might have totalled many times the net movement. There is a real distinction between a mere balance of payments and a statement of the international transactions which give rise to a balance of payments.





Another doubtful entry, the result of the treatment or investments of the branches, is the income from these investments which is entered in the interest item of the balance of payments statement. This is entered in the case of Canadian branches abroad, for instance, as a Canadian receipt. Now actually none of this may be transferred to Canada. Such an artificial division of the income of a branch has no parallel in the affairs of the company. Income from the investments of a branch is usually turned into the receipts of the branch, becoming indistinguishable from the general supply of funds from which the disbursements are made.

A more elaborate variation of the method used by the Bureau is described below.

This method also attempts to measure the earnings of the branches and treats the investments of a branch as head office investments owned by the shareholders. Three entries are made in the balance of payments statement under "interest," "insurance" and "investment." The "interest" entry is obtained by deducting interest, dividends and rent from the income of the branches in the United States of Canadian insurance companies, to take a concrete example. This "interest" is entered as a Canadian credit in the balance of payments statement.

In arriving at the "insurance" item, this "interest" is deducted from the income of the branch along with any remittance from the head office and all non-cash income items such as "gross increase by adjustment in book value of ledger assets," etc. Corresponding deductions are made from the disbursements of the branch. The resulting difference between the net income and net disbursements is the net income from "insurance" proper. This difference, when a net earning, is entered on the debit side of the balance of payments statement under the item "insurance." If the result is a net loss, this is treated as a credit earned by the United States.

The "investment" item is obtained by finding the net change in the ledger assets of the branches for the year in question and correcting it for the "net increase or decrease by adjustment in the book value of assets" and for the "net profit or loss from the sale or maturity of ledger assets." The resulting net change in ledger assets is treated



when positive as a Canadian investment in the United States and is used in calculating the net capital movement between Canada and the United States. The net annual remittance of the Canadian branches in the United States to and from their head offices is the difference between "Interest" and "Insurance" on the one hand and "Investment" on the other.

The method described above is more adapted to estimating the earnings of branch industrial plants than insurance branches. It has been carried into a field where its application is of doubtful validity. While it is true that the branch of an ordinary industrial enterprise abroad may have a net income which is a profit and which must be either transferred to the head office or added to the company's investment abroad, the situation has no parallel in the case of insurance companies. The source of the bulk of the assets of the branch of an insurance company abroad is in the premium payments made by the foreign policy-holders. The policy-holders have a share in the total assets of the insurance company whether these are held abroad by a branch or at home by the head office. In underwriting insurance, the company has incurred definite obligations with claims upon these assets. The assets are not only built up out of premium income but they are a necessary investment inherent in the insurance company's policies, required for the maintenance of investment and income obligations contracted there. A net income is a necessary condition for the development of the company's assets. It cannot be interpreted as a net profit earned by the shareholders of the insurance company, nor can the assets be considered as the unentailed investment of the shareholders. For what reason are the assets of a Canadian insurance company in the United States considered as Canadian investments in that country unless it is that it is assumed that the capital stock of the company is owned in Canada and that ownership of it confers ownership of the assets? The error in this treatment is disclosed further when it is realized that only approximately 1 per cent of the liabilities of life insurance companies is represented by the capital stock of the companies. The example which a mutual life insurance company provides presents the situation even more clearly. There is no ownership of the assets in such a company apart from the policy-holders. The fiduciary nature of the insurance business distinguishes it from other businesses as regards its





income and investments.

Even if the net income and the investments of insurance companies could be interpreted as owned by the parent company, they would not be balance of payments entries from the objective point of view unless they involved a flow of funds during the year as has been discussed above. Instead, they could only be interpreted as changes in Canadian investments abroad through insurance companies. These would be changes which took place quite apart from the balance of payments since they involve no flow of funds corresponding with their gross proportions. To include such items in a balance of payments statement unduly weights it with entries that have no parallel with activities which involve settlement, such as the import and export of merchandise, the settlements for freight services, the tourist trade, etc. These changes, when they can be interpreted as investments, properly belong to the annual estimates of international investments. But in the case of insurance companies, even to treat them as potential credits or investments is unsound since the basic assumption that they are Canadian owned, as discussed above, is unsound. This whole attitude that the net income of insurance companies is an earning or profit confuses the estimation of their influence on the balance of payments. It seems to derive from the untrue analogy with branch plants which has been drawn.

An examination of the source of the information used shows the nature of the estimates in greater detail. The results appear to be purely fictitious as far as their relationship to the real international flow of funds is concerned. The abstracts of the business of the branches of Canadian insurance companies in the United States have been drawn up on the principle that the difference between the total income and total disbursements is equal to the net change in ledger assets. The net remittance between head office and branch appears to be a balancing item included in either the income or the disbursements to strike the necessary balance that the principle employed implies. Because of this the differences between the "Interest" and the "Insurance" entries on the one hand and "Investment" on the other represent precisely the "net remittances" of the United States branches of Canadian insurance companies to or from home offices, as shown in the abstracts. Such a net remittance



cannot be interpreted as the net real flow of funds, however. It is a balancing item which only balances the abstract on the basis of the principle employed. To take it out of its context and say that it represents the net international remittance disregards the disproportionate amounts included in the income, disbursements and investments which may have been the cause or effect of international transfers of funds. If there were no international remittances included in the income and disbursements or used for increasing the assets, the "net remittance" in the books could be interpreted as the real net flow of funds. But the income, disbursements and investments shown in the abstracts are not confined to transactions within the United States. For example, interest from Canada on Canadian securities held in the United States is included. Canadian securities are often held among the assets of the branches in the United States and may have been purchased in Canada. Head office expenses have been charged up against the branches and included among the disbursements shown in the abstracts. Furthermore, it is not possible to tell from the books whether transfers between the head office and branch really resulted in an international flow of funds. Some such transfers may have been made between bank accounts in the same country, no flow of funds really taking place. Situations like this make it impossible to tell from the books what the real flow of funds is. The only sure method seems to be to receive returns from the companies themselves regarding the flow. Clearly, then, there is a very marked difference between the real flow of funds and the estimates of the theoretical flow.

This discussion of the method hitherto employed by the Dominion Bureau of Statistics and the more elaborate variation just described shows the obstacles that arise when it is attempted to estimate the "net earnings" of the foreign branches of insurance companies for inclusion in the balance of international payments. One of the chief difficulties seems to spring from the improper analogy drawn between the foreign branches of insurance companies and the branches of industrial enterprises. The net income and the investments of an insurance branch cannot be regarded as the unentailed property of the owners of the company's capital stock. Even if they could, however, there is the fact that the





"net earning," if it can be estimated, is not necessarily transferred to the head office. Usually part of it at least is employed to increase the investments of the branch. When employed for the latter purpose, it can not be considered a balance of payments transaction since no transfers of funds may have resulted from such operations. In fact, the net earning itself may have been calculated from income and disbursements that included international transactions. It seems, then, that the estimates arrived at by this method result in fictitious balance of payments entries which have no parallel in the objective transfer of funds.

To approach the problem with the aim of measuring the gross international flow of funds both inwards and outwards eliminates fictitious entries and makes the balance of payments statement more consistent as an estimation of the annual cash receipts and cash outgoings of the nation. To treat the transactions of the foreign branches of insurance companies from this point of view requires a report from each company concerned stating the international flow of funds resulting from its business. To accomplish this the following method has been developed tentatively at the Dominion Bureau of Statistics. Schedules are sent to each Canadian insurance company with a branch abroad and to each British and foreign insurance company with a branch in Canada. The information asked for is the flow of funds between each head office and the branches, agencies and shareholders concerned. The form of the schedule varies slightly with different classifications of companies. The schedule sent to the Canadian life insurance companies with branches abroad asks for the inflow and outflow of funds between the head office and the branches, agencies and shareholders in the three geographical categories--the United Kingdom, the United States and other countries. The inflow and outflow on this schedule and on the schedule sent to the Canadian fire and other insurance companies with branches abroad are both divided into two items. The inflow is divided into, (a) Interest and dividends coming into Canada on securities held in Canada, and (b) All other items. The outflow is divided into, (a) Dividends paid to shareholders residing abroad, and (b) All other items.

The schedule sent to the branches and agencies of British and foreign insurance companies in Canada, whether life or fire, and other,



asks for the inflow and outflow to be divided in the following way. The two inflow categories are, (a) Interest and dividends coming into Canada on securities held in Canada, and (b) All other items. The two outflow categories are, (a) Interest or dividends sent out of Canada, if any, and (b) All other items. The exception of certain types of inflow and outflow which was made on the schedule sent to the Canadian life companies does not appear on this schedule.

Quite independent of the inflow and outflow schedule, estimates are made of the investments abroad of Canadian insurance companies and of the investments in Canada through the branches of British and foreign insurance companies. The changes in these each year have not necessarily a direct relation to the annual flow of funds in either the insurance item or the capital items of the balance of payments since often changes in the investments of branches take place which have no connection with the balance of payments as has been shown above. It is true, however, that any of the changes in investments which are due to an actual transfer of funds will be included in the inflow or outflow of funds. The only immediate contact that the balance of payments has with these changes in investment is when they enter into the annual transfer of funds. A transfer of cash between the head office and branch, for example, may include funds which, by their transfer, change the international investment situation. There is no way of telling whether they do, however. The essential thing is that since they resulted in transfers of cash they are included in the balance of payments. From this point of view, the debatable problem of ownership does not exist. It is confined to the estimates of the status of capital investment.

The method of estimating the latter follows:

The Investments Abroad of Canadian Life Insurance Companies

1. The Net Total Assets Held Abroad.--This is calculated by taking from the total assets of the branches abroad all liabilities except the reserve fund abroad, the necessary information being found in the Canadian Insurance Reports. It is admitted that this results in too large an estimate since no allowance has been made for the claims which the foreign policyholders have upon the assets. This exaggeration, introduced by treating the assets abroad as Canadian owned, is offset by





including the foreigners' share in the total assets among the outside investments in Canada. To deal with the situation in this way, however, unduly increases the total Canadian investments abroad and the total of British and foreign investments in Canada by the inclusion of fictitious entries. Though this affects the value of these estimates as measures of totals, it seems to be a necessary compromise in view of the general opinion about insurance investments.

2. The Foreign Securities Held in Canada.--This data is obtained from the individual company statements in the Canadian Insurance Reports.

The Investments Abroad of Canadian Fire and Other Insurance Companies

1. The Foreign Securities Held.--All of the foreign securities held by these companies, whether at home or abroad, are included here.

2. Other Assets Abroad.--An estimate (10 per cent of total foreign securities) is made to cover assets other than securities held abroad.

In addition to these investments of Canadian companies abroad, there was from 1926 to 1929 a net investment in the United States which should be credited to the Canadian policyholders of the branches in Canada of American life insurance companies. This estimate results from the calculations described below used in arriving at the investment in Canada through the branches of British and foreign life insurance companies. It happened that in the years referred to above the estimated share of the assets belonging to the Canadian policyholders in the American companies exceeded the assets in Canada of these companies.

Investments in Canada Through the Branches of British and Foreign Life Insurance Companies

The investments of these companies in Canada is found by subtracting from the assets in Canada the estimated share of the assets belonging to the Canadian policyholders. This estimated share is obtained by applying the ratio which the reserves of the branch in Canada are to the total reserves to the total assets of the company.

Investments in Canada Through the Branches of British and Foreign Fire and Other Insurance Companies

The investments in Canada through the branches of these companies are the assets in Canada less the liabilities in Canada.



Included also among the investments in Canada is the counter-balancing item, the estimated share of the assets credited to the foreign policyholders of the Canadian life insurance companies, which has already been referred to above. This was obtained by applying the percentage which the reserve fund abroad is of the total reserve to the total assets.

There are also the portfolio investments in Canadian securities which are held abroad by British and foreign insurance companies. These are part of the general British and foreign investments in Canada and are not segregated as insurance investments.

The problem of dividing the balance of payments transactions between the geographical categories--the United Kingdom, the United States and other countries--is simplified by using the schedules. The "net earning" approach requires more precise data than that given in the Canadian Insurance Reports. Even if this were available, there are additional difficulties revealed in the following situation which can only be covered by means of schedules showing the real movement of funds unless this movement is to be ignored entirely. The Sun Life Assurance Company, for instance, finances its foreign branches by the transfer of funds from New York and London when occasion demands and the surplus funds of these branches are concentrated in the head office accounts in New York and London. The flow of funds reported by the Sun Life between Montreal and New York and London will often include funds originating in the business of some other foreign branch. It appears that there are no direct transfers of funds between the head office and the foreign branches with the exception of those in the United Kingdom and the United States. Hence any calculation of "earnings" or "net remittances" from the books of these foreign branches for balance of payments data would not result in an estimation of the true situation. In reality, any funds that are transferred find their way between Canada and the foreign country by a triangular route--i.e., through the bank accounts maintained by the company in London and New York. Consequently, their payment between Canada and the United States, for instance, should be included in the statement of payments between Canada and the United States and not between Canada and the third country. The credit in the third country is only a potential Canadian credit. Actually, it will be first transferred





to New York and remain a short-term credit there until it is transferred to Canada if it is not lodged permanently in the United States.

There are some movements of funds which may not be completely included by the schedules sent to the companies. First, to take the case of the Canadian life insurance companies, there is difficulty with the item "Inflow of interest and dividends on foreign securities held in Canada." If this is interpreted as only including interest and dividends coming into Canada directly, there may be a considerable portion of this inflow omitted. The practice with some companies is to collect interest falling due abroad at the branch in the country where it is payable. Not all of this is lodged abroad. If some of it is later transferred to the head office, it very often is indistinguishable from "all other items" and is consequently included there. It appears impossible to obtain a clear-cut separation between the inflow of interest and dividends and all other items.

Since the schedules refer to transfers between branches, agencies and shareholders abroad and their head office, it is possible that some companies have omitted transfers of funds due to reinsurance transactions or receipts or payments to the public. A number of companies state that these movements have been included in their returns but others considered it too difficult to make a record, for instance, of all premium payments, etc., between policyholders who had moved abroad and the head office to warrant the inclusion of such factors.

Another difficulty arises in the returns from the branches in Canada of British and foreign insurance companies. The outflow item, "Interest or dividends sent out of Canada, if any," may include interest collected by the branch on head office investments in Canada. These investments made by the head offices and held outside of Canada are included in, and indistinguishable from, the general estimates of British and foreign investments in Canada. In fact, when they are held in Canada as head office deposits with the Receiver-General, for instance, the probability is that they are also included in the general estimates referred to. The interest on these general investments is estimated and shown in the balance of payments statement as an outflow of interest. Consequently, if some of this is included also on the schedules, it will



produce duplication between the interest and insurance entries. The only means of preventing such duplication is to specifically exclude from the interest outflow item of the schedule any interest which comes from investments in Canada purchased and owned by the head office of British and foreign insurance companies.

The above analysis, admittedly incomplete, is sufficient to disclose the problems arising from the relationships of insurance companies with the balance of payments and the estimation of international investments. A satisfactory method depends, to a large extent, upon the attitude taken as to the spheres of the balance of payments and international investments. Much confusion of thought arises from the lack of the clear-cut definitions which should, if possible, be employed in these two fields. The difficulty of obtaining such arises from the variety of transactions and situations which appear in any statistical analysis of such complicated phenomena, many aspects of which are decidedly abstruse. If the balance of payments is limited to cash transactions of a revenue character, the problem is simplified considerably as has been disclosed. To include non-cash changes, however, introduces factors which must depend for their justification upon their theoretical claim to a place in the balance of payments as the "earnings" of a branch. This latter condition is to be accepted as a criterion for inclusion in the balance of payments. When this is attempted, the ownership of such "earnings" must be determined. Whereas the approach from the point of view of the flow of funds avoids the questions of earnings and ownership. The determination of ownership is limited to the estimation of international investments where it properly belongs. In that context it chiefly concerns the claim to ownership in the assets of a company by the policyholders, which is inherent in the contract between company and policyholder. To ignore this claim is to draw an untrue analogy between the foreign branch of an insurance company and the branch of the typical industrial concern.

#### Remittances by Immigrants and Emigrants

Considerable sums of money are mailed by immigrants in Canada to friends and relatives abroad. In many cases friends may have assisted the immigrant with a loan and the remittances represent repayment. This





factor has probably been of decreasing importance in recent years. At Christmas the traditional gifts may take the form of money and during the years of depression those more fortunately situated in Canada may have helped their needy relatives abroad. There is, of course, a reverse movement of funds from Canadian emigrants (mainly in the United States) into Canada.

It has not been possible to obtain any direct information as to the sums of money remitted on these counts. A large proportion of the remittances probably will be made by the simplest method, that of the Post Office money order. In addition, of course, it is certain that remittances are made through the agencies of banks and express companies who have developed the business of foreign remittances very energetically in recent years and some currency will be sent through the mail. It is impossible even to guess at the volume of these remittances.

For purposes of estimate, therefore, the arbitrary assumption has been made that the sums remitted by immigrants through these non Post Office channels is equal to the amount of money order remittance arising out of pecuniary transactions (small purchases abroad, etc.). That is to say, by this device of substitution we take the totals of Post Office money order remittances as equivalent to the total sums transferred abroad by immigrants in Canada and remitted here by Canadian emigrants abroad. The money order statistics are recorded in the Canada Year Book by fiscal year and have been adjusted to a calendar year basis, and the results are incorporated in the Summary Balance of Payments.

#### Expenditures of Governments

This item comprises on the "debit" side expenses incurred abroad incidental to the operations of Canadian government departments and includes, inter alia: The operation of Canadian legations, grants to the League of Nations and other expenses connected therewith, advertising and exhibition expenditures, and the maintenance of immigration and commercial intelligence services abroad. The items are abstracted from the relevant sections of the report of the Auditor General. In addition, the payment of pensions to persons resident in Great Britain, the United States and elsewhere is included in the above heading, details being obtained from the Board of Pensions Commissioners for Canada. This item accounts for



between six and seven million dollars annually. Expenditures in Canada by British and foreign governments on account of consular and diplomatic services and the like, and by the British and other Ministries of Pensions, provide a contra item. These figures, of course, do not include interest on government debt paid or received from abroad since this is provided for in the calculations of interest under Section 4 of the balance of payments. Supplies purchased abroad are similarly excluded because of their inclusion in merchandise imports.

British and foreign consular and commercial services in Canada were communicated with and a request made for particulars regarding expenditures. From most of these the data was obtained and an estimate made to cover the balance. Particulars regarding pension payments in Canada and allied expenses are obtained from the British Ministry of Pensions and for the United States through the United States Legation.

#### War Debt Receipts - Reparations

During the years when Canada was in receipt of a relatively small sum for reparations, it was entered as a special item in the balance of payments. The information was abstracted from the Dominion Public Accounts.

#### Educational, Charitable and Missionary Contributions

Canadian colleges and research institutions receive grants from British and American endowments, notably from the Carnegie and Rockefeller foundations; religious bodies in Canada receive contributions from parent bodies and others abroad. On the other hand, missionary services are maintained abroad by the contributions of Canadian churches.

It is difficult to estimate the sum total of these remittances and receipts because of the great number of organizations which contribute. A circular is sent annually to religious organizations, educational institutions, and to other sources likely to have information. On the basis of these returns, the estimate is made.

#### Advertising Receipts and Expenditures

The trade statistics of Canada show the amount of advertising materials imported into this country, but, of course, no published record is available as to the sums received by Canadian newspapers and other





advertising media on account of services performed in Canada for British and foreign advertisers. That the amount of such advertisement is fairly considerable cannot, however, be doubted. Thus, the United States Bureau of Foreign and Domestic Commerce (Finance and Investment Division) reported in 1929 that "the total foreign advertising bill of the United States was not less than \$50,000,000--much of this goes to Canada."

It is believed that the majority of foreign advertising in Canada is undertaken through the medium of the newspaper and magazines, although bill-boards, radio and street car signs may account for a little foreign revenue. In this connection it must be remembered that the advertisement expenses in Canada of branch plants of American concerns do not constitute a foreign receipt but are chargeable to Canadian profits.

Questionnaires are sent annually to newspapers and other periodicals, to various governments, the railways, exhibitions, etc., asking for information concerning advertising receipts and expenditures. An estimate is then made to cover the receipts not included. An addition of 10 per cent was made but this is probably conservative. For 1933 receipts were estimated to be \$1,776,551 and payments \$1,251,912.

#### Motion Picture Earnings and Payments

There are some 1,100 moving picture theatres in Canada, all making use of imported films. Some pictures are paid for outright, others are handled on a sort of profit-sharing basis, and a small portion of payments (possibly 10 per cent) is in the form of royalties.

These earnings and payments for motion picture films involve remittances to Great Britain, United States and other countries. In 1933 it was estimated that 78 per cent went to the United States, 15 per cent to Great Britain, 5 per cent to France, and 2 per cent to Germany. The United States percentage has been diminishing, while that of other countries, particularly Great Britain, has been increasing.

Estimates are made with the assistance of such expert advice as that of the Motion Picture Distributors and Exhibitors of Canada. For 1933 the estimate was a payment of \$3 million and for 1934 it was \$2½ million.



### Capital of Immigrants and Emigrants

An attempt is made herein to estimate the amount of monetary capital brought into Canada by immigrants and taken out by emigrants. The only suitable method appears to be to estimate the per capita amount of capital brought into or taken out of the country by the several classes of immigrants and emigrants (by country of origin or destination) and to multiply these amounts by the corresponding numbers of people involved. The estimated amounts per capita brought in are necessarily very arbitrary and the statistics of total emigration, at least, not very satisfactory so that no great reliance can be placed on the final estimates of the gross investments of immigrant capital.

#### Immigration into Canada

Immigrants into Canada are classified according to the following table:

#### Immigrants into Canada

Year	Immigrant Arrivals from -				Total
	United Kingdom :			Other Countries :	
	United States :	United Kingdom :	Other Countries :	Other Countries :	
<u>Fiscal Years ending March 31st</u>					
1926 .....	37,030	18,778	40,256		96,064
1927 .....	49,784	21,025	73,182		143,991
1928 .....	50,872	25,007	75,718		151,597
1929 .....	58,880	30,560	78,282		167,722
1930 .....	64,082	30,727	68,479		163,288
1931 .....	27,584	24,280	36,359		88,223
<u>Calendar Years</u>					
1931 .....	7,678	15,195	4,657		27,530
1932 .....	3,327	13,709	3,555		20,591
1933 .....	2,304	8,500	3,578		14,382
1934 .....	2,166	6,071	4,239		12,476

A movement not shown in the immigration figures is that of returned Canadians who originally left Canada to reside in the United States and who on returning to Canada declared their intention of resuming their residence in this country. Since the statistics include only those who have been in the United States for more than six months, such returning Canadians may be considered as bringing in capital, the result of their earnings in the United States, in much the same manner as immigrants into Canada from that country.





Canadians Returned from the United States

Fiscal year		
ending March, 1926	.....	47,221
1927	.....	56,957
1928	.....	39,887
1929	.....	33,797
1930	.....	29,830
1931	.....	30,209
Calendar year		
1931	.....	20,352
1932	.....	18,220
1933	.....	10,209
1934	.....	7,272

Capital Brought in by Immigrants

For purposes of estimate, the fiscal year statistics from 1926 to 1931 of immigrants and returning Canadians are adjusted to a calendar year basis on the assumption of equal monthly distribution. Since 1931, the data are available on the calendar year basis. The next task is to estimate the amount of cash which each class of immigrant shown in the above tables may be said to import. In the first place, it must be remembered that, of the immigrants properly so-called, slightly less than 45 per cent of the total in recent years consist of adult women and children under 14, the effect of which should be to reduce any estimate of per capita imports made on the basis of male immigrants. It is also certain that, of the immigrants from Great Britain and the continent of Europe, many will have had their travelling expenses in Canada paid by relatives already here and some by the various settlement or charitable agencies in this country.

Taking all these factors into account, and after making comparison with the estimates used on former occasions (notably those of Prof. Viner in respect to the period 1900-1913, and Cost of Living Report 1914), it has seemed reasonable to take the following as typical of the per capita import of capital of immigrants by country of origin: Great Britain, \$50; Other Countries, \$25; United States (farmers and farm labourers), \$500; other United States immigrants, \$100; United States returning Canadians, \$100.

The explanation of the large sum assigned to farmer immigrants from the United States is that this estimate must include, in many of such cases, an amount representing the proceeds of sale of farms and farm buildings in the United States, whence they come with some of their live-



stock and implements to buy cheaper land in Canada.

The totals in the table following are carried into the balance of payments as an invisible export, i.e., a receipt of foreign funds.

Estimated Total Capital Imported by Immigrants into Canada

Imported by immigrants from :	1926	1930	1931	1932	1933	1934
	\$	\$	\$	\$	\$	\$
Great Britain ...	2,329,750	1,835,400	383,900	166,350	115,200	108,300
U.S.A. (farmers and farm labourers)	4,306,500	3,172,000	1,398,000	1,210,500	684,000	451,000
U.S.A. (other immigrants) ...	1,233,100	1,954,500	1,239,900	1,128,800	713,200	516,900
U.S.A. (returning Canadians) ....	5,452,300	3,011,400	2,035,200	1,822,000	1,020,900	727,200
Other Countries .	1,623,750	1,109,750	116,425	88,875	89,450	105,975
TOTAL .....	14,945,400	11,083,050	5,173,425	4,416,525	2,622,750	1,909,375

Capital Taken Out by Immigrants

No official statistics of emigration from Canada are kept, but it is possible to make a reasonable calculation as to its volume by the use of the British and United States official statistics relating to immigration from Canada. The sources of information are given in the footnotes. As in the similar case of returning Canadians, whom we included in the immigration total, it has been decided to include in the statistics of emigration the numbers of United States citizens returning to that country permanently, being former residents of Canada.

It need hardly be said that statistics of emigration, by the very nature of things, are none too reliable, particularly in the case of the movement across the Canadian-United States boundary, but it is believed that the table following indicates sufficiently the variations in the movement.





Emigration from Canada - Calendar Years

	: 1926	: 1930	: 1931	: 1932	: 1933	: 1934
Emigrants to United States <sup>(1)</sup> ..	93,468	47,800	9,556	6,539	6,135	7,873
Emigrants to Great Britain <sup>(2)</sup> ..	10,481	15,820	17,864	21,187	16,371	12,128
Emigrants to Other Countries <sup>(3)</sup>	4,054	2,606	1,036	1,017	816	805
U.S. Citizens--former residents to Canada--returning perman- ently to the United States <sup>(4)</sup>	9,500	9,167	6,000	5,000	3,818	5,976
Total Emigration .....	117,503	75,393	34,456	33,743	27,140	26,782

(1) United States Department of Labour, Bureau of Immigration--"immigrant aliens admitted to the United States, who gave Canada as their last permanent residence, during calendar years." The 1930 figure is an estimate on the basis of the published statistics for 11 months only.

(2) Official British Statistics (Board of Trade Journals) "immigrants from Canada."

(3) Counting the emigration to the United States and Great Britain, and allowing for immigration into Canada and the computed natural increase in the population of Canada, the total loss of population not otherwise accounted for in the inter-censal period 1911-1921 was 3.1% of the recorded emigration. This percentage is, therefore, applied to the total of recorded emigration to the United States and Great Britain in order to compute the amount of emigration to other countries.

(4) United States Bureau of Immigration.--These statistics were only published from 1928 to 1930 and relate to fiscal years. They are, therefore, adjusted to a calendar year basis. The figures shown for 1926 and 1927 are estimates and those from 1931 to 1934 are obtained direct from the Bureau of Immigration.

Capital Taken Out by Emigrants per Capita

It will be seen in the above table that the greater part of the emigration movement was to the United States, particularly in the earlier years. It may be assumed that a considerable share of the total is made up of younger Canadians seeking more remunerative employment across the border and of some Canadians and former United States residents who have met failure and unemployment in Canada. Also, rather less than 40 per cent of the emigrants to the United States in 1930 were listed as having no occupation, largely women and children, and only slightly more than 10 per cent of the total were farmers and members of the professional and commercial classes who might be expected to take with them larger amounts of capital comparable with that assumed to be brought in by farmer immigrants from the United States.



In view of these considerations, it is considered that \$125 per capita is a reasonable estimate of the amount of money taken out of Canada by all emigrants<sup>x</sup>. The results are shown in the following table:

Estimated Total Capital Taken Out by Emigrants from Canada

	: 1926	: 1930	: 1931	: 1932	: 1933	: 1934
	\$	\$	\$	\$	\$	\$
Emigrants to United States.	11,683,500	5,975,000	1,194,500	817,375	766,875	984,125
Emigrants to Great Britain.	1,310,125	1,977,500	2,233,000	2,648,375	2,046,375	1,516,000
Emigrants to Other Countries	506,750	325,750	129,500	126,750	102,000	100,620
United States Citizens re- turning .....	1,187,500	1,145,875	750,000	625,000	477,250	747,000
TOTAL .....	14,687,875	9,424,125	4,307,000	4,217,500	3,392,500	3,347,745

Earnings of Canadian Residents Employed in the United States

As the recent annual statements of the United States Bureau of Foreign and Domestic Commerce on the "Balance of International Payments of the United States" have pointed out, there has been a considerable number of Canadian residents commuting daily for employment in the United States. The automobile workers of Windsor and other border cities who have been on the payroll of Detroit factories provide the best illustration of this form of invisible earnings.

The estimates of the United States Bureau of Canadian earnings for the period 1928 and 1929 amounted to \$12,000,000 in Detroit, \$2,625,000 in Buffalo and \$300,000 in Niagara Falls, N.Y. The per-contra estimate of the earnings of American residents employed in Canadian boundary cities was \$1,200,000. The net "credit" for those years is, therefore, placed in the summary balance of payments at \$13,725,000.

The present business depression, which has been particularly acute in the automobile industry, was responsible for a very pronounced shrinkage in the amount of payrolls of Canadian commuters working in the United States (minus the per-contra movement).

<sup>x</sup> This estimate is roughly equal to that adopted by Viner--"Canada's Balance of International Indebtedness 1900-1913," allowing for the alterations in the general price level in the intervening period.





The net figure for the Detroit region in 1930 seems to have been only about \$2,790,000, and for the Buffalo district about \$906,000, according to recently published American estimates.

It has been estimated that the net figure was only \$700,000 in 1934.

DIRECT AND INDIRECT METHOD OF ESTIMATING  
CAPITAL MOVEMENTS

If all the debit and credit items in the balance of international payments were accurate, the difference would represent the net import or export of capital. The derivation of the capital item by this method is known as the indirect estimate of net capital inflow or outflow. Unfortunately, such accuracy in the individual items of the balance statement is not attainable and large errors and omissions may creep in. It is very much to be desired, therefore, that a direct estimate of capital movement be made, any balance still remaining being attributed to errors and omissions. Moreover, the direct estimate, since it endeavours to be an itemized record of all current capital movements, supplies gross figures of debits and credits which are necessary for a proper statement of the balance of international payments.

Of course, direct estimates of capital movements present considerable difficulties. They require a greater precision than that necessary for a statement of total capital investment at a point of time. As explained previously, the method used in the Canadian annual estimate of capital invested by British and foreign countries will not permit of its use as a source of the actual annual inflow or outflow of capital funds. A direct estimate of capital, therefore, requires a special calculation. A record of direct investments in branch enterprises (including mining ventures, etc.), new public issues of bonds, the heavy international trade in existing securities, and miscellaneous capital transactions must be maintained in detail. For this purpose the original distribution of new public issues can be ascertained as they take place. A record is now kept in the Bureau of branch plants as they locate in the Dominion and, though great care is taken not to miss any, it is difficult to obtain a list which is 100 per cent complete. These branch enterprises can be circularized



with regard to the importation of capital. As regards the daily international trade in existing securities, it has been the subject of special monthly returns since 1933. Through the co-operation of such associations as the Investment Dealers, Canadian Bankers, Dominion Mortgage and Investment, the stock exchanges, etc., a very complete record is secured. This record is extremely valuable as showing the extent of one very important form of capital movement. Figures for 1933 and 1934 obtained from this source were as follows:

Purchase and Sale of Securities Between Canada and  
Other Countries, 1933 and 1934

(000's omitted)

Year	United States		Great Britain		Other than Great Britain and United States		Total	
	Sales	Purchases	Sales	Purchases	Sales	Purchases	Sales	Purchases
	To	From	To	From	To	From	To	From
1933	205,680	202,939	80,807	27,587	2,261	7,200	288,749	237,727
1934	215,946	284,162	102,112	23,757	3,112	4,337	321,171	312,257

These figures are supplied in the form of totals by the various associations co-operating. Since this is so, it is impossible to know what the constituents are. They will include such items as the following:

1. Sale of new Canadian issues (separate information is available for this item).
2. Sale of old Canadian securities.
3. Sale of foreign securities.
4. Repurchase of Canadian issues.
5. Purchase of foreign securities.
6. In all cases purchases and sales may be either bonds or stocks.

If a breakdown into categories were also secured, the means would be available for making yearly corrections in the original distribution of bonds which is the basis of that part of the estimate of British and foreign investment in Canada. In any event, since these figures do not go back beyond 1933, their value for the purpose of direct estimate lies in the future rather than the past.

Direct estimates of capital movements from 1926 to 1933 are shown in the following table:





Statement of Capital Movements

	R E C E I P T S						P A Y M E N T S						B A L A N C E S	
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI			
	New Series	Direct Investments	Canadian Investments : Abroad	Short-term : N.O.P.	Total	Retirements	Canadian Investments : Abroad	Short-term : N.O.P.	Total	+	+			
1927	265,404,109	68,000,000	-	5,000,000	338,404,109	101,329,077	196,250,935	5,000,000	302,580,012	35,824,097	-			
1928	203,752,892	44,500,000	-	20,000,000	268,252,892	185,903,108	127,690,965	-	313,594,073	-	45,341,181			
1929	286,257,567	46,500,000	-	25,000,000	357,757,567	125,317,656	152,480,064	-	277,797,720	79,959,847	-			
1930	360,595,842	67,150,000	-	10,000,000	437,745,842	96,023,183	100,200,103	-	196,223,286	241,522,556	-			
1931	185,779,986	9,000,000	-	18,000,000	212,779,986	171,381,903	28,323,648	-	199,705,551	13,074,435	-			
1932	94,787,933	12,000,000	5,052,070	-	111,840,003	80,611,629	-	16,000,000	96,611,629	15,228,374	-			
1933	74,527,297	3,000,000	52,324,441	-	129,851,738	98,873,618	-	10,000,000	108,873,618	20,978,120	-			



Explanations of Methods Used in Making Direct Estimates

Column 1

New Series.--This is the total amount of new public bond issues sold abroad each year. They include refunding issues because the contra item appears in Column 4. As already explained, a record of the original geographical distribution of each new issue is kept in the Bureau. These records are checked annually for maturities and retirements and the totals paid abroad are estimated on the basis of the original distribution.

Column 2

Direct Investments in Branch and Subsidiary Enterprises.--An estimate is made for each year based mainly on capital employed figures of the industrial census, though some supplementary information from the firms concerned has been utilized. Bonds included in new issues (Column 1) are deducted.

This estimate of direct investments in branch and subsidiary enterprises may be subject to an important margin of error. Arrangements are now under way to make a careful check on it. A special inquiry is being instituted among between 1,200 and 1,300 branch and subsidiary concerns in Canada. It is hoped this inquiry will furnish much reliable information on the subject of the movement of direct investment into Canada by years.

Columns 3 and 7

Canadian Investments Abroad.--As already pointed out, the statement of British and foreign total investments in Canada cannot be used to ascertain annual movements of capital by the simple device of subtracting one year from another. This is not the case, however, with the statement of Canadian Investments Abroad which is compiled in such a way that the difference between one year and another gives the estimate of the net movement of capital. Column 2 gives the net movement inward, that is, where Canadians were, on balance, selling more of their investments abroad than they were making new investments; then a net movement of funds inward will be shown in this column. Column 7 shows the net movement outward.

The groups of items covered are: (1) Dominion Government balances abroad, (2) Net assets of Canadian banks abroad, (3) Investments





of insurance companies abroad, (4) Foreign securities held in Canada by insurance companies, (5) Canadian direct investments abroad (branch plants, etc.), (6) Miscellaneous investments abroad (mostly ownership of British and foreign securities other than those owned by banks and insurance companies as provided above).

It has been pointed out in other sections of this bulletin that some of these estimates are more or less rough approximations, and the insurance investments abroad have come in for particular criticism. The same criticism is applicable to some extent for the item "net assets of banks abroad." Until improved statistics can be secured, however, the estimates are the best available.

#### Columns 4 and 8

##### Short-term Receipts and Payments not Otherwise Provided for.--

There is a movement of short-term funds included in the item "net assets abroad of Canadian banks," and the item "Canadian government balances abroad" is really in the nature of short-term funds. But in addition to these are the balances in Canadian banks owned by outside countries, and there are short-term funds of various descriptions owned by Canadians other than banks and governments lodged in other countries but not in Canadian branch banks. These columns cover such items. They are based on data secured from the Canadian banks and from United States sources. They are probably not complete but cover the bulk of such transactions.

The following table is based on the last one. Figures for capital imports and exports do not agree with Columns 5 and 9 because retirements (Column 6) have been deducted from New Series (Column 1) so as to arrive at the new money received. The balances are, of course, unchanged. Column 4 shows the debit or credit balance still unaccounted for when the direct capital estimate has been included in the balance of payments statement.



Export and Import of Capital (Direct Estimate) and Errors and Omissions  
(Amount Necessary to Bring Accounts into Balance)

Canadian Balance of International Payments, 1926-1933

(In Millions of Dollars)

Year	: Capital : : Imports :	Capital : : Exports :	: Balance : : :	: Errors and : Omissions
	: I	: II	: III	: IV
1926 .....	247.6	230.8	+16.8	+202.6
1927 .....	237.1	201.3	+35.8	+157.2
1928 .....	82.3	127.7	-45.4	+134.0
1929 .....	232.4	152.5	+79.4	- 33.8
1930 .....	341.7	100.2	+241.5	+ 35.6
1931 .....	41.4	28.3	+13.1	+ 7.7
1932 .....	26.2	10.9	+15.3	+ 48.8
1933 .....	- 21.3	+ 42.3	+21.0	+ 80.2

The errors and omissions in 1926, 1927 and 1928 are large. It is believed that a considerable portion of this is accounted for by under-estimates of investments abroad. During those years, Canadians were participating heavily in the New York Stock Market and there are grounds for believing that the present estimates of the extent of that participation are too low. It is expected that, as a result of further research on this subject and in the matter of insurance investments, important alterations will be made in this table and the error and omission estimates reduced to smaller figures.

PROBLEMS

In the preceding pages a number of problems have been raised, the solution of which would make possible an improved balance of payments statement. It is proposed here to summarize the outstanding ones and to add some which have not been discussed before.

1. Commodity Trade.--In connection with this item, the existence of numerous branch concerns in Canada give rise to some complex problems. It is known that certain United States branch, subsidiary, affiliated or controlled enterprises when they ship goods from Canada do not receive the full payment of the valuation recorded in the trade returns. For example, certain mines ship their ores to the United States but these mines receive in payment only their operating expenses. In certain cases the United States controlled concern ships its goods all over the world, but remittances are to the head office in the United States. Usually the Canadian





plant receives only operating expenses. These facts do not reflect on the accuracy of the customs statistics but they do indicate the necessity of special treatment for direct investments (branch enterprises) in the matter of dividends and remittances. A dividend record will not show the full extent of direct or indirect remittances to the United States.

In addition to the above type of case, there are others which affect the question of remittances. There are many branch concerns in Canada which have no separate Canadian incorporation but are licensed to do business here. These are really only divisions of the main plant in the United States. In many such cases there appears to be a constant transfer of funds which are not in the nature of dividends. Apparently, also, there are American branches whose activities are confined to the Canadian market but which have their customers remit to the United States.

All of these cases show the necessity of treating branch enterprises in a special manner. A special inquiry is now under way by which it is hoped to obtain some light on this additional flow of funds into the United States. With this additional information, it should be possible, (a) to show the funds transferred in addition to dividend payments which are now recorded, and (b) to make a contra item of remittances to offset the credit for exports which do not bring into Canada funds equivalent to the customs valuations.

2. It is urgently necessary to secure statistics to correct each year the estimate of British and foreign ownership of bonds which now appear in our tables at the original distribution totals less maturities and redemptions. There are two possible sources for this additional data: (a) If the monthly return on the sale and purchase of securities supplied through investment dealers, banks, stock exchanges, could be broken down into categories instead of given as a lump total, the estimates could be corrected for current changes; (b) Access to income tax returns, especially certificates of ownership, or the compilation of their contents regarding ownership of securities, would throw much light on this and other problems with regard to security ownership.

3. There is a growing need for a more frequent presentation of the statistics entering into the balance of payments than a yearly



one. For purpose of exchange problems, seasonal data are necessary. The monthly sale and purchase of securities record and monthly trade figures are two important items which can be utilized in this way. Interest and dividend payment records could be organized to this end. A fourth important item in the balance of payments statement necessary for the purpose is the tourist trade.

If current representative figures on the purchase and sale of United States currency could be compiled by the banks, it is probable that a formula could be worked out which would be satisfactory. It is hoped that actual tourist trade figures will eventually be available in part, at any rate, at more frequent intervals.

4. The necessity of compiling separate estimates of total British and foreign investments in Canada and the actual current capital movement has been shown. It appears from the discussion on insurance that the same policy should be adopted in connection with Canadian investments abroad and current actual movement of capital out of Canada.





Estimated Balance of International Payments for Canada, 1926-1928.

(000's omitted)

	1926		1927		1928	
	Exports	Imports	Exports	Imports	Exports	Imports
	Visible	Visible	Visible	Visible	Visible	Visible
	and	and	and	and	and	and
	Invisible	Invisible	Invisible	Invisible	Invisible	Invisible
1. Commodity Trade - Recorded merchandise exports and imports .....	\$ 1,285,661	\$ 1,008,342	\$ 1,241,259	\$ 1,087,118	\$ 1,376,824	\$ 1,222,318
Unrecorded imports of ships .....	-	24	-	1,860	-	19,230
	1,285,661	1,008,366	1,241,259	1,088,978	1,376,824	1,241,548
Deductions for settlers' effects and other non-commercial exports and imports .....	12,326	21,774	11,020	22,504	10,926	21,395
	1,273,335	986,592	1,230,239	1,066,474	1,365,898	1,220,153
Correction for overvaluation and undervaluation .....	-	-	-	-	-	-
Corrected total of commodity trade .....	1,273,335	986,592	1,230,239	1,066,474	1,365,898	1,220,153
2. Exports and imports of gold coin and bullion .....	78,410	47,126	61,896	31,257	105,035	39,659
3. Correction for gold movement to convert to Canadian currency .....	-	-	-	-	-	-
4. Freight receipts and payments, n.o.p. ....	96,414	105,863	96,826	108,961	95,866	115,328
5. Tourist expenditures .....	201,167	98,747	238,477	108,750	275,230	107,522
6. Interest receipts and payments .....	68,770	250,000	80,792	266,658	94,912	282,816
7. Immigrant remittances .....	15,550	20,509	15,433	22,423	14,421	23,195
8. Government expenditures and receipts .....	11,948	10,863	11,850	11,751	11,819	11,030
9. Government receipts, reparations .....	1,757	-	6,791	-	4,688	-
10. Charitable and missionary contributions .....	814	1,878	873	1,766	1,373	1,800
11. Insurance transactions (net figure only for 1932, 1933 and 1934) .....	10,835	23,827	19,194	29,486	35,761	28,790
12. Advertising transactions ..	3,143	4,500	4,482	4,800	3,858	5,000
13. Motion picture earnings ...	-	3,500	-	3,500	-	3,750
14. Capital of immigrants and emigrants .....	14,945	14,689	14,545	12,611	14,783	11,178
15. Earnings of Canadian residents employed in U.S.A. (net figure).....	10,000	-	11,000	-	13,725	-
16. Exports and imports of electrical energy (1) ....	4,600	89	4,798	87	-	-
17. Exchange - London and New York, on interest and maturity receipts and payments .....	-	-	-	-	-	-
18. Total credits and debits shown above .....	1,791,688	1,568,183	1,797,196	1,668,524	2,037,369	1,850,221
19. Difference between credits and debits as above (2)...	-	223,505	-	128,672	-	187,148
	1,791,688	1,791,688	1,797,196	1,797,196	2,037,369	2,037,369

(1) Included with commodity trade since 1928.

(2) This difference is made up of capital movements and errors and omissions.



Estimated Balance of International Payments for Canada, 1929-1931.

(000's omitted)

	1929		1930		1931	
	Exports	Imports	Exports	Imports	Exports	Imports
	Visible	Visible	Visible	Visible	Visible	Visible
	and	and	and	and	and	and
	Invisible	Invisible	Invisible	Invisible	Invisible	Invisible
1. Commodity Trade - Recorded merchandise exports and imports .....	\$ 1,210,951	\$ 1,298,993	\$ 907,887	\$ 1,008,479	\$ 620,741	\$ 628,098
Unrecorded imports of ships .....	-	19,420	-	7,470	-	500
	1,210,951	1,318,413	907,887	1,015,949	620,741	628,598
Deductions for settlers' effects and other non-commercial exports and imports .....	11,679	24,614	10,957	23,814	9,328	16,751
	1,199,272	1,293,799	896,930	992,135	611,413	611,847
Correction for overvaluation and undervaluation .....	-	-	-	-	-	5,000
Corrected total of commodity trade .....	1,199,272	1,293,799	896,930	992,135	611,413	606,847
2. Exports and imports of gold coin and bullion .....	47,985	3,746	22,916	39,120	70,062	2,038
3. Correction for gold movement to convert to Canadian currency .....	-	-	-	-	-	-
4. Freight receipts and payments, n.o.p. ....	91,341	130,443	70,289	98,811	54,077	73,950
5. Tourist expenditures .....	309,379	121,645	279,238	100,389	250,776	76,452
6. Interest receipts and payments .....	110,725	330,090	112,892	356,369	101,364	336,423
7. Immigrant remittances .....	14,036	23,385	13,185	19,907	10,051	13,110
8. Government expenditures and receipts .....	11,750	11,300	11,750	10,379	11,750	10,960
9. Government receipts, reparations .....	4,325	-	6,267	-	1,295	-
10. Charitable and missionary contributions .....	950	1,800	950	1,800	950	1,800
11. Insurance transactions (net figure only for 1932, 1933 and 1934) .....	31,990	24,418	29,483	19,794	29,796	14,329
12. Advertising transactions ..	4,000	5,280	4,000	6,000	3,000	5,000
13. Motion picture earnings ...	-	3,750	-	3,750	-	3,750
14. Capital of immigrants and emigrants .....	14,117	11,496	11,083	9,424	5,173	4,307
15. Earnings of Canadian residents employed in U.S.A. (net figure) .....	13,725	-	3,696	-	1,857	-
16. Exports and imports of electrical energy (1) ....	-	-	-	-	-	-
17. Exchange - London and New York, on interest and maturity receipts and payments .....	-	-	-	-	4,500	5,000
18. Total credits and debits shown above .....	1,853,595	1,961,152	1,462,679	1,657,878	1,156,064	1,153,966
19. Difference between credits and debits as above (2)...	107,557	-	195,199	-	-	2,098
	1,961,152	1,961,152	1,657,878	1,657,878	1,156,064	1,156,064

(1) Included with commodity trade since 1928.

(2) This difference is made up of capital movements and errors and omissions.





Estimated Balance of International Payments for Canada, 1932-1934

(000's omitted)

	1932		1933		1934 <sup>x</sup>	
	Exports	Imports	Exports	Imports	Exports	Imports
	Visible	Visible	Visible	Visible	Visible	Visible
	and	and	and	and	and	and
	Invisible	Invisible	Invisible	Invisible	Invisible	Invisible
1. Commodity Trade - Recorded merchandise exports and imports .....	\$ 502,801	\$ 452,614	\$ 538,144	\$ 401,214	\$ 660,551	\$ 513,469
Unrecorded imports of ships .....	-	980	-	300	-	300
	502,801	453,594	538,144	401,514	660,551	513,769
Deductions for settlers' effects and other non-commercial exports and imports .....	6,526	14,048	3,525	9,687	3,743	8,294
	496,275	439,546	534,619	391,827	656,808	505,475
Correction for overvaluation and undervaluation .....	-	22,000	-	7,000	-	1,474
Corrected total of commodity trade .....	496,275	417,546	534,619	384,827	656,808	504,001
2. Exports and imports of gold coin and bullion .....	60,825	2,175	63,315	858	105,095	4,764
3. Correction for gold movement to convert to Canadian currency .....	7,919	-	23,991	360	-	-
4. Freight receipts and payments, n.o.p. ....	38,016	62,954	43,685	62,482	51,444	74,888
5. Tourist expenditures .....	212,448	57,403	117,124	50,860	129,974	60,905
6. Interest receipts and payments .....	93,773	309,066	88,297	278,770	95,000	290,000
7. Immigrant remittances .....	6,080	7,127	5,319	5,598	6,000	6,500
8. Government expenditures and receipts .....	8,850	10,379	5,983	9,999	5,790	10,053
9. Government receipts, reparations .....	-	-	-	-	-	-
10. Charitable and missionary contributions .....	1,050	1,200	1,723	1,569	1,800	1,600
11. Insurance transactions (net figure only for 1932, 1933 and 1934) .....	-	12,184	-	22,072	-	15,000
12. Advertising transactions ..	2,000	3,500	1,776	1,252	2,000	1,500
13. Motion picture earnings ...	-	3,250	-	3,000	-	2,500
14. Capital of immigrants and emigrants .....	4,416	4,217	2,623	3,392	1,909	3,348
15. Earnings of Canadian residents employed in U.S.A. (net figure) .....	750	-	700	-	700	-
16. Exports and imports of electrical energy (1) ....	-	-	-	-	-	-
17. Exchange - London and New York, on interest and maturity receipts and payments .....	10,000	23,750	3,000	12,000	-	-
18. Total credits and debits shown above .....	942,402	914,751	892,155	837,039	1,056,520	975,059
19. Difference between credits and debits as above (2) ..	-	27,651	-	55,116	-	81,461
	942,402	942,402	892,155	892,155	1,056,520	1,056,520

(1) Included with commodity trade since 1928.

(2) This difference is made up of capital movements and errors and omissions.

x Preliminary.













